THE

QUARTERLY JOURNAL

OF

ECONOMICS

FEBRUARY, 1910

PROPOSALS FOR STRENGTHENING THE NATIONAL BANKING SYSTEM. I

SUMMARY

I. Rapid growth of banking under state laws, 202. — The prohibition of real estate loans diminishes the profits of national banks and their power to serve the community, 204. — The large amount of funds employed away from home by the banks is a serious element of weakness in our credit system, 206. — The segregation of savings deposits with power to invest them in mortgage loans would reduce the congestion of credit in New York, 210. — II. The uselessness of reserves with agents in past crises, 217. — The strain on New York has been too severe, 219. — Proposal to substitute for the present system two classes of banks, local banks and reserve agents, 223. — The latter to be established anywhere but in all cases to hold a cash reserve of 25 per cent., 224. — The cash reserves of local banks to be increased to 10 per cent., the money released by the conversion of demand into savings deposits providing the means, 227. — III. Failure to use reserves in crises, 229. — Largely due to the use of clearing house loan certificates without their original complement of a provision for equalizing reserves, 231. — Summary account of the effects of their issue on successive occasions, 236. — Equalization not unfair to any bank and should be required by law when they are issued, 240.

In the May (1909) number of this Journal the writer presented at length reasons for the view that a central bank would not fit into our system and prove an effective remedy for our financial ills. The opinion was also expressed that a number of changes less

revolutionary in character might be made which promised improvement far more certainly. Some of these changes were briefly indicated in that paper. It is my purpose, in this and in a succeeding article, to analyze the working of our banking system still further and to set forth in detail certain modifications in legislation and practice which may be expected to enable the banks to serve the community more effectively in normal times and also place them in a better position to meet emergencies. Most of the changes which will be urged are designed almost exclusively to meet crisis conditions. I shall, however, begin with a proposal the primary purpose of which is to make banking under the national law more profitable, and also more serviceable to the community, tho it will be found to have no little value as a means of strengthening the credit structure. This proposal is the establishment of true savings departments by national banks, the deposits in which shall be segregated and invested under appropriate safeguards.

I

There is abundant evidence of the urgent need of amending existing legislation if the national banks are to remain the predominant factor in our banking system. For many years credit institutions under state laws, both state banks and trust companies, have been increasing far more rapidly both in number and in volume of business.[1] A decade or more ago

[1] The following table shows the resources of the three groups of banks at successive ten-year intervals. It probably exaggerates somewhat the growth of state institutions, as the data regarding them secured by the Comptroller of the Currency have become somewhat more comprehensive in recent years.

Resources of Commercial Banks in the United States [in millions]

	1888	1898	1908
National Banks	$2731	$3978	$8714
State Banks	672	1356	4033
Trust Companies	314	942	2366

observers commonly contented themselves with the explanation that state laws lacked many provisions, the expression of sound banking principles, which were to be found in the national law. But this explanation is no longer even plausible. State banks and trust companies have steadily, and upon the whole deservedly, gained in prestige and public confidence. The discredit of a number of the latter in New York and elsewhere in 1907 served only momentarily to check their growth. Banking under state laws is certainly more profitable and is also apparently rendering a more complete and efficient service to the community than is possible under the national law. To meet this unsatisfactory situation should be the first step in legislation, if it can be accomplished without sacrificing any real element of strength in the national banking system.

Most of the restrictions in the national banking law have to do with loans, reserves, or the issue of notes. Of these the restrictions upon loans are by far the most serious impediment in competing for business with state banks and trust companies. For the banks outside the large cities this is particularly true of the provision which forbids loans upon real estate as security.

This restriction is based upon a sound banking principle, learned after much bitter experience. But the experience which led to a complete prohibition of real estate loans was gained amid the economic conditions of the first half of the last century, and the principle itself is one which is applicable only to a particular form of banking organization. While the country was in process of settlement, with an abundance of unoccupied fertile land, real estate was a security of most uncertain value. Moreover, the wild-

est of the speculative movements which preceded all our early crises were invariably in land. At present, land values are far more stable, and real estate is everywhere included among the most conservative of investments, proper for all with the one exception of commercial banks.

For banks all of whose obligations are payable upon demand, the real estate loan, quite regardless of its safety, is wisely considered unsuitable. Such loans are commonly wanted by borrowers for a considerable period of time and, therefore, they can not readily be reduced in amount even by an individual bank. In other words, they are not liquid. But the importance of this quality in all its assets disappears when a bank begins to acquire time or savings deposits, as well as those payable on demand. There is, indeed, a strong prejudice in English-speaking countries in favor of the complete division of labor among banking institutions. This view, at no time accepted in other countries, has been steadily losing ground even in Great Britain.[1] In the United States the example of the trust companies shows that a great variety of financial business can be carried on safely and profitably under a single management. Failures among them have been comparatively few in number, and it would be difficult to find a single instance of disaster which could be attributed to the variety of business carried on.

Some of the advantages which the banks would derive if they were able to lend on real estate are so evident that they require little more than mere mention. It would give them more of the most profitable kind of business, that which has its origin in the

[1] A number of the London joint stock banks have, for example, recently established foreign exchange departments.

neighborhood of the bank. The immediate return is generally greater than can be secured from the employment of funds in the money centers or in the purchase of paper from note brokers. Moreover, in fostering the growth of wealth and population in its locality a bank is laying a solid foundation for the future expansion of its own business. Finally, the ability to lend on real estate will often enable a bank to secure valuable customers who would otherwise go elsewhere. It has been the unpleasant experience of many a national banker to be obliged to refuse a loan to a would-be borrower who has nothing but real estate to offer as security and to see him enter a neighboring state bank or trust company where there was no legal obstacle to the transaction. Relations once established are pretty certain to continue even after the borrower has security which falls within the provisions of the national law.

There are then at least three distinct advantages which may be expected to follow if the national banks are permitted to lend on real estate. It would be profitable for the banks; it would be of advantage to the localities served by the banks; and, finally, it would enable the banks to compete with state institutions upon a more equal footing,[1] thus checking to some extent the relative decline of banking under the national law. All these advantages, and others to be mentioned later, can be secured with no sacrifice of safety by a simple amplification of the existing law. It is only necessary to permit the national banks to establish true savings departments, segregating the

[1] The importance of real estate to the state banking institutions is shown in the Special Report from the Banks of the United States on April 28, 1909, recently published by the National Monetary Commission. For state banks real estate loans and mortgages amounted to $414,000,000 or 12½ per cent. of total resources and for the trust companies to $377,000,000, more than 9 per cent. of their resources.

deposits, with power to invest them in mortgage loans.

Many of the national banks have already established what are termed savings departments; but they lack most of the essential characteristics of savings institutions. The banks do not have the right to refuse payment on demand; there is no check upon sudden withdrawals aside from the loss incurred by the depositor through payment of interest at half-yearly intervals. Nearly one-third of the national banks have established savings departments, the deposits in which amount to nearly $400,000,000, and almost as much more has been secured by all the banks in the national system as time deposits including time certificates of deposit. In addition to the reserve requirement, the banks must invest the funds thus secured in accordance with limitations designed to safeguard deposits the origin and purpose of which is of an entirely different character. No trouble would be experienced if discounts and short-time loans, satisfactory in quality, were to be had in every locality in sufficient quantity to absorb fully the resources of the banks. But these conditions are absent in many parts of the country, especially in those in which agricultural development is the precursor of commercial development.

There are many indications that the local demand for short-time loans is inadequate. Evasions of the law have been frequent and bankers have had the excuse that real estate is often a far better security than that provided by many of their customers whose loans are technically within its requirements. The only alternative has been for banks to employ a part of their resources permanently away from home. No one of the ways open to the banker for this employment is entirely satisfactory.

He may deposit surplus funds in the large cities and secure a beggarly 2 per cent. That this is common practice is shown by the large deposits with reserve agents in excess of the amount serving for reserve purposes. Such deposits, in the case of the country banks, on September 1, 1909, amounted to $443,000,000 of which only $249,000,000 could be counted as a part of the required reserves. In normal times these balances with city banks are a liquid resource, but in emergencies they have invariably proved of very uncertain utility. Between August 22 and December 3, 1907, for example, the country banks were able to reduce their deposits with city banks only from $410,000,000 to $347,000,000. Certainly if the purpose is to maintain themselves in a strong condition the country banks are not well-advised in keeping 10 per cent. of their resources in this form.

Many of the banks regularly hold large investments in securities. On September 1, 1909, these, not including United States bonds, amounted, in the case of the country banks, to $488,000,000, or about 12 per cent. of their total resources. Securities are more satisfactory than balances with city banks as regards the rate of return: they are also a liquid resource in normal times. In emergencies, however, they are an even more unsatisfactory resource than balances with city banks. On account of the inevitable fall in the market price of securities in times of crisis, bankers are unwilling to sacrifice them. Between August and December, 1907, for example, there was a positive increase in such holdings of nearly $22,000,000.

A third alternative is open to the banks: they may lend at a distance, either by the purchase of paper from note brokers or by means of loans on the New

York money market. If carefully selected, commercial paper purchased from note brokers is in normal times the most satisfactory investment which a bank can make away from home, both in its rate of return, in liquidness, and in its effect upon the business community. On account of the absence of other relations between borrower and lender, it is a simple matter for the bank to insist upon payment; whereas, in the case of the local borrower, a pretty constant line of credit is commonly expected and secured. It is not, however, to the advantage of the bank to employ any considerable portion of its resources either in purchases of commercial paper or in New York loans. The rate of return is commonly less than that which is secured on local loans, and no valuable permanent relations are established. Moreover, these loans at a distance, like deposits with reserve agents and security holdings, can not be depended upon in emergencies. If the city banks, and particularly those in New York, suspend payments the country bank is unable to secure the proceeds of its loans because borrowers make payment either in checks or drafts on the city banks.

The portion of the funds of the country banks employed away from home in all these various ways is certainly very great. Any legislation which would tend to increase the amount of purely local business would clearly be of advantage to the banks. That it would also be advantageous to the community is equally certain, and that it would tend to strengthen our banking system in emergencies is highly probable.

In some parts of the eastern states the available supply of capital for all purposes is in excess of local requirements. In such circumstances power to lend on real estate would not be of any particular advan-

tage to the locality. It would simply serve to enable the banks to compete upon a more equal footing with state institutions. Over a far greater part of the country the available supply of bank credit proper, that is, of short time loans, would also seem to be in excess of local needs, while the opportunities for the use of capital for more permanent objects are by no means exhausted. Here the power to lend on real estate would be of advantage both to the banks and to the community. In the most rapidly advancing sections of the country there would seem to be opportunities for the use of additional amounts of both kinds of loans. Under a highly developed system of branch banking these sections would attract banking credits from other parts of the country, and the country as a whole would thus be making the most effective possible use of this portion of its resources. But under our system of numerous independent local banks there is a very different distribution of credit. Loanable funds move without difficulty from country banks and those of the small cities to the large cities and especially to New York. But the movement goes no further; even tho the demand for loans in its neighborhood is large, the small bank can get little [1] from the money centers beyond what it has deposited or employed there, and not always all of that. In other words, credit is but imperfectly fluid, or rather, fluid in only one direction. The money centers are reservoirs for the collection from all parts of the country of funds which either temporarily or permanently can not be employed at home, but they are unsatisfactory distributing agents. The banks of the money centers are national in their power to

[1] The notes and bills rediscounted, and bills payable, of all the national banks on September 1, 1909, amounted to only $50,300,000, a little less than 1 per cent. of the total loans of the banks, and this amount has seldom been much exceeded.

attract money, while in its employment they are little more than local institutions.

To some extent, indeed, credit is widely distributed through note brokers. They perform a useful function for large borrowers whose requirements could not be met entirely by the banks of their localities. The note broker brings those whose credit is of the most unquestioned character to the cheapest market for loans; but he does not distribute funds to the localities where they are most needed.

Our practice of depositing reserves in banks of reserve and central reserve cities, and the loans made by banks away from home, do little to equalize the demand and supply of credit between different sections of the country. This failure to make the most advantageous use of available banking credit, is, however, a matter of comparatively slight importance. As a result of the widespread habit of using checks there are few parts of the country in which the lack of commercial credit is a serious obstacle to local development. Requirements for capital for prolonged use are in general met far less completely, and on this account any provision which would make possible the employment in this way of a part of the funds that must now be invested in short time loans, would serve a useful purpose.

Whether under a more perfect system of distribution the existing supply of short time credit would prove relatively excessive may be left an open question. Under our present system of numerous independent banks there is certainly a wasteful abundance of that form of capital and the disposition which is made of much of it is a serious element of weakness in the credit structure. There is normally in this country what may be termed a congestion of banking

credit in the money centers and particularly in New York. The term congestion may seem inapplicable, inasmuch as the supply of credit in the money centers is ordinarily fully utilized; but in the case of central money markets, at any rate, this is a superficial and even misleading criterion. The demand for short-time loans for purely industrial purposes is determined by the volume of business dealings which are being transacted. It cannot be stimulated materially by the banks even through the offer of low rates, tho, of course, it may be somewhat enlarged by the acceptance of inferior security. But in the money centers and particularly in New York the demand for loans is of a far more expansive nature. Speculative dealings in securities and commodities, and other financial operations, are capable of almost indefinite growth if a sufficient amount of credit can be secured. The volume of speculative dealings on the New York Stock Exchange is certainly far beyond what is needed for any useful purpose. It has been very largely created because of the enormous supply of available credit furnished by bankers under the wholly unfounded belief that call loans are always liquid.

The extraordinary amount of credit which is utilized in these and other financial dealings in New York is roughly indicated in the reports of the banks of the city. The total loans of the New York national banks on April 28, 1909, were $903,000,000; of this amount $405,500,000 were call loans secured by collateral, and $225,000,000 were time loans similarly secured.[1] In the case of the trust companies the total loans amounted to $595,0000,000, of which $251,000,-000 were call and $266,000,000 were time collateral

[1] The collateral loans of the national banks of New York City were 70 per cent. of all their loans, while those of the banks of the reserve cities, including Chicago and St. Louis, were less than 40 per cent.

loans. Finally, there were $70,000,000 of the former and $46,000,000 of the latter out of a total of $240,000,000 of loans made by the state banks in the city. For all the New York banks the total of loans was $1,738,000,000; of this amount $727,000,000, or more than 40 per cent. were call loans. Including time collateral loans of $537,000,000, the enormous aggregate of $1,264,000,000, more than 70 per cent. of all loans, is found to have been based upon stocks, bonds, and merchandise.[1] No doubt a considerable portion of these loans was obtained by borrowers for industrial uses; but, on the other hand, the loans of outside banks (Canadian as well as American) in the New York market and those of private lenders and also finance bills are not included. It would seem to be fairly certain, therefore, that collateral loans, approaching in volume those shown by the banks of the city, were made for financial and speculative purposes.

Surely it requires no argument to show that the employment of $1,000,000,000 or more in financial operations in New York is excessive and wasteful. Moreover, even if these funds are usefully employed there would seem to be something radically wrong in a banking system under which a considerable portion of them is secured from other parts of the country where there are abundant opportunities for the investment of additional capital. Not only are funds attracted to New York which would otherwise not be employed but also funds which might serve to develop local enterprises, if the banks were able to use a part of their resources in long-time loans on real estate and other security.

[1] These figures are taken from the Special Report from the Banks of the United States already referred to.

But the absorption of credit in ways which are relatively, if not absolutely, unproductive is not the only, and it may be added, not the most serious, consequence of this congestion of credit in New York. The deposit or employment by the banks of a large part of their resources at a distance is a positive element of weakness in every emergency. In order to meet the various business requirements of their customers the banks necessarily become interdependent, with various mutual obligations on both sides of the ledger. In times of crisis there is everywhere the danger, which is enormously enhanced under a system of numerous banks, that these relations will be violently sundered, dislocating the ordinary course of payments between the banks, their customers, and different parts of the country. The interdependence of the banks, tho largely the outgrowth of business convenience and necessity, is, to a very considerable extent, an unnecessary and unhealthy consequence of legislation designed with quite different objects in view.

Experience in successive crises has uniformly shown that the money centers are unable to return any considerable part of the funds deposited or employed in them by outside banks. Remedies for this unsatisfactory situation may be sought in two directions: if the local banks employed more of their resources at home the strain on the money centers in emergencies could not be so severe as it has often been in the past; on the other hand, if the banks of the money centers maintained themselves in a stronger position in normal times they could endure greater strain in times of difficulty.

The strain upon the money centers in emergencies may be diminished somewhat by a change in the

national banking law which would permit the banks to establish savings departments with power to invest savings deposits in mortgage loans. For the banks of Wisconsin, for example, to provide a portion of the funds employed on the New York Stock Exchange is certainly an uneconomic use of their resources if there are opportunities for investment at home on real security; and it is doubly undesirable because it tends to weaken the entire credit structure. The national banks of that state already hold nearly $20,000,000 in savings deposits and doubtless this amount could be largely increased. At present the deposits of the Wisconsin banks with reserve agents are nearly $5,000,000 more than are available for reserve purposes, an excess of nearly 80 per cent. Whether the Wisconsin banks are also lending to any considerable extent outside the state can not be determined, tho it is highly probable.

The extent to which real estate loans would enable the banks to dispense with the employment of funds at a distance is uncertain. It is not to be supposed that this power alone would be sufficient to remove this element of weakness. But even if it serve only to check somewhat the tendency to employ funds at a distance it would at least diminish the strain of future emergencies.

The ability of the national banks to attract savings deposits is evident. Even in New England, where the field would seem to be fully occupied by savings banks and trust companies, ninety-five of the four hundred eighty-four national banks have opened savings departments and have secured deposits amounting to more than $30,000,000. In the Western and Southern states, in which savings institutions under state laws are comparatively few, much larger

results are to be expected from a national savings bank law.

The urgent need of generally diffused facilities for savings has led many to urge the establishment of a postal savings bank system. A national savings bank law would, however, permit of a very wide extension of such facilities. If the banks were permitted to open agencies for the receipt and payment of deposits in every place in which there is no national bank and upon condition that such agencies be withdrawn upon the establishment of a bank, savings facilities could be almost as widely diffused as under a postal system. In every other respect the superior advantages of national savings banks are clear and unquestioned. The accumulation of capital is far greater in some sections of the country than in others. Presumably postal savings banks would attract depositors most largely in those sections of the country in which savings facilities are now lacking. They are just those sections in which there are the most abundant opportunities for further investment. The deposits in the postal savings banks would be invested in government bonds and possibly in the bonds of the states and of municipalities. To draw money away from Idaho or Oklahoma, for example, for such investments is unwise. It would be taking money from parts of the country where interest rates are high to place it in investments yielding a low rate of return, a rate determined by the accumulation of investment funds in the eastern money centers. Savings would be taken from parts of the country in which the rate of interest is high, simply because of the attractive facilities for savings furnished by the government.[1]

[1] The postal savings plan, now before the Senate, would tend to increase the employment of their resources by the banks away from home. Under the provisions

Can it be questioned that the development of the country will be better served by the employment of savings by the individual banks in fostering the development of their own localities?

In formulating a national savings bank law the codes of a number of the eastern states would serve as admirable models, but the opportunity should not be lost of taking one important step forward in such legislation. The banks should be protected against their savings depositors far more completely than has been customary in the practice of state savings institutions. Savings depositors seem somewhat more liable to spasms of unreasoning fear than the business depositors of commercial banks. In many of the states, savings banks are empowered to require notice of the withdrawal of deposits, and have made use of the power in every period of crisis. But it is a power which is not well understood by the mass of depositors and its exercise has therefore probably done quite as much harm as good. Many depositors look upon the step as an indication of insolvency and refrain from making their customary weekly and monthly additions to their savings accounts. Money is hoarded which in normal times passes from wage-earners into circulation through the channel of the savings banks. This has been an important influence responsible for the dearth of currency which has characterized our successive crises. Savings depositors should be made to understand that the withdrawal of their deposits without notice is a matter of favor. It might be well if a week's notice of with-

of the bill, deposits, received at the several post offices, are to be turned over to the local national banks, but as they are to be payable on demand, no considerable portion of them could be invested in mortgages or other local securities. Moreover, the price of the government guaranty would certainly seem to be excessive. The depositor is to receive the beggarly return of 2 per cent., just half the rate ordinarily paid on savings' deposits by both national and state banks.

drawal were regularly required. Then the longer notice exacted in emergencies would excite less alarm among depositors. The more widely savings institutions are established the more necessary will it become to impress upon depositors the nature of the obligations and investments of the savings bank. State institutions can not be controlled in this matter, but it is to be expected that the expression of this sound principle in national legislation would have a potent influence upon them.

II

We shall now turn our attention to changes in our banking system designed primarily to enable the banks to cope more successfully with crisis conditions. For this purpose it is fortunately not necessary to impose additional burdensome restrictions upon the conduct of the daily operations of the banks. The adoption of such remedies would diminish the profits of the banks and their power to serve the business community, and would also make it even more difficult than at present to compete with state credit institutions. With the exception of 1893, none of our crises has disclosed among any considerable number of the national banks a condition of weakness so extreme as to involve impairment of capital, much less insolvency.[1]

In each of our successive crises the same defects in our banking system have been made manifest. They have been the result not of unsound methods of handling the individual banks but of the imperfect organization of the system. At no time, except

[1] The bank failures of 1893 were largely in the West and Southwest, where economic conditions were so generally unsound that no conceivable restrictions could have shielded the banks from serious trouble.

during periods of acute trade depression, have the banks been in a position to withstand severe strain. Nowhere has there been adequate reserve power to meet emergencies by means of the expansion of loans and the payment of cash in sufficient amount to allay the alarm of depositors. At the outbreak of the crises of 1873 and 1893 the banks were not appreciably less well supplied with cash resources than in the years immediately preceding; and in 1907 the ratio of this part of their reserve to deposit liabilities was considerably above what it had been during a number of the years since the beginning of the century.[1] To require by legislation that all the banks shall have adequate power in reserve for emergencies would be a difficult, even an impossible, undertaking, to say nothing of the burden of expense which it would place upon the banks and consequently upon the community. Proposals for an asset currency, which seem to be designed to bring this about in a less expensive fashion, have failed to secure general favor, largely, it may be surmised, because of the widespread feeling that the banks would exhaust this as they have their other credit resources before an emergency came upon them.

Fortunately a less diffused reserve power is sufficient for the purpose and can be secured by means of more simple and less hazardous arrangements. It is only necessary to insure the maintenance of this power in reserve where the strain of crises is most severe and to make certain that it will be put to use. This is accomplished in other countries through central banks; and were it not for political and economic difficulties, in particular the absence of

[1] In regard to this and other statements of fact regarding our crises the reader is referred to a History of the National Banks during Crises by the writer, which is to be published shortly by The National Monetary Commission.

branch banking, the same result doubtless might be achieved in this country. The exposition of other means more in harmony with our traditions and banking practice will be the concern of the remainder of this paper.

In every country there is a central money market to which is always shifted nearly the entire burden of supporting the credit structure in emergencies. This is obvious in any country in which banking is carried on by a few banks with many branches, since the central offices of such banks are with few exceptions in its chief money center. In the United States with its multitude of independent local banks it is, indeed, less obvious, but it is no less certain that this burden rests upon the central money market of the country, New York City. Some of our crises and panics, like those of 1884 and 1907, began in New York. Others began elsewhere, as, for example, the crisis of 1893, which set in with failures in the West and South. But in all cases the consequent strain was immediately felt in New York with no apparent diminution in violence.

The significance of the New York money market in our banking system is not fully recognized. It is indeed generally understood that the practice of depositing reserves with agents in the money centers places a severe strain upon them in emergencies, and it is well known that the New York banks have acquired a large share of such deposits. The enormous responsibilities resting upon the New York banks on this account will be seen in the following table, which shows the distribution of bankers' deposits among the national banks on September 1, 1909: —

	New York	Chicago and St. Louis	Forty-six Reserve Cities
Number of Banks	38	23	321
Due to National Banks[1]	$331	$198	$381
Due to Other Banks	346	110	403
Total Bankers' Deposits	677	308	784
Due from National Banks	49	76	167
Due from Other Banks	9	17	60
Net Bankers' Deposits	619	215	557
Due from Reserve Agents	——	——	266

The New York banks held about one-third of the total amount of bankers' deposits; and if the more significant obligation of net bankers' deposits is taken, they held more than 43 per cent. of the total. Compared with the banks of Chicago and St. Louis their obligations to bankers were almost three times as great.

And this is not all. From the table it will be observed that the amount due to the banks of Chicago and St. Louis from other national banks was $76,000,000, while in the case of the New York banks it was only $49,000,000. But the total resources of the New York banks are about two and one-half times as large as those of the Chicago and St. Louis banks. A large portion of the amount due to the banks of the two western central reserve cities consists of balances with the New York banks. This is well known, tho no figures of the exact amount of such balances are available. Large New York balances are necessary because New York is the clearing-house of the country. In this connection certain statistics gathered by the Comptroller of the Currency nearly twenty years ago have great significance. From information provided by 3,329 of the 3,438 national banks it was found that in 1890 all but three drew

[1] These and the following items in millions.

drafts upon New York and that the total amount of such drafts was 61.31 per cent. of all the drafts drawn upon all the banks of the country. In the case of the Chicago banks the amount drawn was but 9.82 per cent. of the total. The Chicago banks drew upon New York for $222,000,000 and were drawn upon in return for but $82,000. These figures show very clearly how indispensable is the maintenance of payments by the New York banks if the dislocation of the domestic exchanges is to be avoided. If every bank throughout the country were required to keep its entire reserve in its own vaults the likelihood of suspension in New York would be diminished, but general suspension would be no less certain to follow if that step were taken by the New York banks.

The strain upon the New York banks in emergencies is not limited to the withdrawals of balances by outside banks. Like the central money markets of other countries, New York is the cheapest market for loans in the United States and is consequently resorted to by large borrowers from all sections. For this reason and on account of stock exchange and other financial dealings the demand for loans there is indefinitely large and attracts the surplus funds of the banks of the entire country. Loans of outside banks in New York are apt to be particularly large during those periods of months or even years when conditions are ripening for a crisis, because at such times the rates for loans in money centers always reach abnormally high levels. When a crisis does come, calls from the outside banks for the liquidation of their loans and the shipment of the currency received in payment are invariably even more in evidence than the drawing

[1] See Report of the Comptroller of the Currency, 1891, pp.16–23.

down of balances. The effects are far more disturbing because of the shifting of loans which is involved.[1]

There has been no crisis since the establishment of the national banking system in which the New York banks would have been at all likely to have resorted to suspension had their difficulties been confined to those of purely local origin. In 1873 the situation in New York was so far improved at the time the banks restricted payments that the necessity for it was generally questioned. It was subsequently explained in a clearing-house committee report that the measure was taken on account of the threatened exhaustion of the cash reserves of the banks in response to the demands of the interior banks for the return of their deposits.[2] In 1893 there was nothing in the nature of a panic in New York itself, when this discreditable step was again taken. The banks succumbed to the prolonged drain of money to the West and Southwest, where numerous bank failures had generally weakened public confidence. Again, in the crisis of 1907, at the end of the week in which the troubles of the New York trust companies became known, the local situation was showing such decided evidence of improvement that but for the increased demands of the outside banks it is certain that cash payments would have been maintained. The course of events in all these crises shows plainly the source of weakness in our banking system and the general nature of the remedies which should be adopted. The burden resting upon the New York banks should,

[1] Since the appearance of outside banks as large lenders in the New York money market it has been no longer possible for the clearing house banks to reduce their loans in emergencies. During the last two weeks of October and the first week of November, 1907, the loans of the latter were increased by over $110,000,000.

[2] This illuminating report should be better known. It will be found in the Commercial and Financial Chronicle, November 15, 1873 and in the Bankers' Magazine, December, 1873.

if possible, be lightened and, above all, their ability to endure severe strain should be increased.

Something can be accomplished in the way of diminishing the responsibilities of the New York banks in emergencies; tho perhaps not much, since these responsibilities are an inevitable consequence of the position of the city as the clearing house and money center of the country. We have already seen that the investment of savings deposits in long time loans may be expected to check somewhat the flow of money to New York. This is especially probable in the case of banks in those parts of the West and South where there are still abundant opportunities for the further investment of capital. As it has been precisely from banks of these sections that the demand upon New York in emergencies has been most urgent, the effect of their withdrawal from the New York market would probably be much greater than might be expected, judging solely from the relative magnitude of the funds thus employed.

Something also may be accomplished toward reducing the strain upon New York by a modification of the reserve requirements of the national banking law. The present arrangement with its three classes of banks, or rather of localities, has nothing to recommend it. It has failed whenever it has been subjected to severe test. No bank which holds large bankers' deposits, particularly when these form a part of the reserves of other banks, should be permitted to keep its own reserve anywhere except in its own vaults. There are a number of banks in the reserve cities each of which has acquired upwards of $15,000,000 of bankers' deposits. For these banks to be allowed to keep half of their reserves with central reserve city banks is an arrangement based neither upon business

convenience nor sound principle. It places virtually the entire burden of supporting the credit structure upon the banks of central reserve cities which hold bankers' deposits. Moreover, on account of the deposits and funds employed in New York by the banks of Chicago and St. Louis, this burden rests almost entirely upon the few banks in that city which hold the lion's share of the deposits of other banks.

This unsatisfactory situation can be remedied, in some measure, by a simple change in the present law. It would only be necessary to impose the requirement of a 25 per cent. cash reserve upon any bank wherever situated which should choose to qualify as a reserve agent for other banks. It might also be advisable to limit this power to banks in places with a certain minimum population and with a minimum of capital (which might be placed as high as $500,000 or even $1,000,000). Under this arrangement the distinction between reserve and central reserve cities would disappear. There would be but two classes of banks: local banks which might be established anywhere, and reserve agent banks which might be established in any place having the required minimum population.

It is impossible to formulate any legislation regarding reserve requirements which will be entirely satisfactory. The responsibilities of banks in different localities are not entirely similar, and the responsibilities of the various banks in any one locality are even more diverse. The present law over-emphasizes the importances of differences in localities and even then does not accomplish the end in view. The banks in a city which is a commercial and financial center for the region about it have responsibilities which exceed those of the banks of a city whose business is of a purely local nature. But this difference can not

be determined by the test of population. In those parts of the country in which the population is dense the banks in a city with a comparatively large number of inhabitants may be of little more than local importance. On the other hand, in the agricultural West and South, important centers for commercial and banking business may have a very small population. Aside from a minimum population requirement, the present law leaves to the banks the determination of the rank of each place. The results have been not a little curious. The banks of some important cities like Buffalo, Atlanta, and Memphis have elected to remain country banks. In the Western States, where the rivalry of cities is keen, reserve cities are more numerous. Texas already has six and the state of Washington three.

Under the proposed arrangement opportunity would be given to many individual banks, at scattered points throughout the country, to develop a business which would be profitable to themselves and of service to their localities. The deposited reserves of the country banks would probably not then be found so frequently in a city distant hundreds or even thousands of miles. This was a cause of the temporary suspension of many banks in 1893, and similar mishaps would doubtless have occurred in 1907 if general suspension had not come almost at the very beginning of that crisis. Under the proposed arrangement, further, the heavy responsibility which rests upon those banks which hold bankers' deposits would be more apparent to the general public than it is at present. At the same time it would relieve many banks of a burden which is also a serious obstacle to the growth of banking under the national law in reserve cities. By no means all the banks in the

reserve cities have acquired bankers' deposits. Many of them are engaged in purely local business and do not need larger reserves than local banks elsewhere. Certainly if the present requirement is sufficient for the country banks of Buffalo and Atlanta, it would be adequate for the purely local banks of Boston or San Francisco. That the present arrangement is a serious obstacle to the growth of the national system in reserve cities is certain. With the exception of a few cities in which many national banks were formed after the Civil War, the number of national banks in reserve cities is exceedingly small. There are at present forty-six reserve cities; in two of these (Savannah and Tacoma) there are only two national banks; in nine there are only three; and again in nine there are only four national banks. In most instances a national charter is secured only when the organizers of the bank intend to compete for bankers' deposits. Banks designed for purely local business are organized under state laws.

The effect of the proposed change upon the cash reserves of the banks can not, of course, be determined exactly. It would certainly increase somewhat the required cash holdings of the national banks, taken as a whole, against a given net deposit liability. On September 1, 1909, the three hundred and twelve banks in reserve cities held a cash reserve, including the 5 per cent. fund, of $231,800,000, or 13.5 per cent. of their net deposits. Nearly $200,000,000 in addition would be required if all the banks were to qualify as reserve agents. But it is certain that by no means all of them would qualify, since many of them have little or no bankers' deposits. It would seem to be a safe assumption that not more than two-thirds of the total deposit liability of these banks would belong to

banks which would become reserve agents. Upon this assumption not more than $133,000,000 would be needed. The withdrawal of this sum from the banks in the central reserve cities, by reducing their deposit liabilities, would set free $33,000,000 now held as reserve. It would seem safe, therefore, to assume that about $100,000,000 would be required to carry out this change. This is an amount not much greater than the trust companies of New York City were obliged to accumulate in consequence of state legislation passed after the crisis of 1907. If provision were made for compliance with this requirement over a period of two or three years, it could certainly be carried through with no seriously disturbing consequences.[1]

This estimate of the amount of money required to provide all banks holding bankers' deposits with a 25 per cent. cash reserve would be still further reduced if the banks of the present reserve cities engaged in purely local business were to be assimilated to the country banks for reserve purposes. Moreover, some change in the reserve of most of the country banks would follow the establishment of true savings depart-

[1] Mr. Victor Morawetz has brought forward, in his suggestive volume entitled The Banking and Currency Problem in the United States [second edition, pp. 122–129] a plan for a more thoro-going reconstruction of our reserve system. He proposes a uniform reserve requirement against ordinary deposits for all the banks of the country and a much higher requirement against bankers' deposits. There would be no deposited reserves, so far as the law is concerned. Purely for illustrative purposes, he suggests 10 per cent. against ordinary deposits and 30 per cent. against bankers' deposits. The 10 per cent. requirement would involve the moderate increase of $40,000,000 in the cash reserves of the country banks, and would, of course, reduce the requirement for banks in reserve and central reserve cities. The 30 per cent. requirement against bankers' deposits would be clearly insufficient. With the possible exception of a very few banks in reserve cities total cash requirements would be less than under the present law and very much less in the case of central reserve city banks. It would be necessary to have a reserve of something like 50 per cent. against bankers' deposits in order to strengthen materially the banks of the money centers. The proposal in the text involves far less departure from our existing arrangements and its effects can therefore be more definitely predicted. The purpose of the two proposals is not essentially different.

ments. The present reserve requirement is too high for savings deposits the withdrawal of which is properly safeguarded. The opportunity would, therefore, be provided to increase the cash reserve against deposits payable on demand without imposing an additional burden upon any considerable number of the country banks. The requirement of a cash reserve of 10 per cent. and a deposited reserve of 5 or even 10 per cent. would involve little or no addition either to their present stock of money or to the amount of their deposits with reserve agents. It would simply ensure retention of the existing reserve after the conversion of demand deposits into savings deposits.

This scheme of requirements, it is submitted, is adjusted to the varying responsibilities of the banks as nearly as is possible under legislative provisions which are necessarily more or less rigid in character. It does fail to meet the special responsibilities which rest upcn banks in the money centers of the first rank, even tho their business is purely local. The failure of purely local banks in New York may have wide consequence if it disturbs confidence in those banks of the city whose business relations are national in scope. This, however, is an aspect of the situation which would diminish in importance under the proposed arrangement because it emphasizes the responsibilities of banks not by localities but with reference to their position as reserve agents. Finally, it may be observed that in the great cities the banks themselves may be relied upon to ensure the maintenance of proper standards through the clearing house. Some years before the establishment of the national banking system the New York Clearing House Association adopted the rule requiring a 25 per cent. cash reserve, and this rule would doubtless be continued even tho the present law were to be changed.

III

Up to this point we have been considering means of diminishing the strain upon the New York banks through changes which would directly affect the other banks. By means of savings departments a considerable amount of demand deposits would be converted into time deposits and a greater part of the funds of the banks would be employed at home. The proposed change in reserve requirements would increase somewhat the cash reserve of the banks in general without imposing any appreciable burden upon them, and would largely increase the cash reserve of those banks outside the present central reserve cities which hold bankers' deposits. These banks, like those of Chicago and St. Louis, would doubtless carry considerable balances in New York and also employ surplus funds in that market; but their withdrawals of funds from it in emergencies could hardly reach the proportions possible under the present system.

All these various arrangements would avail little, however, if the banks in future emergencies make no more use of their reserves than they did in 1893 or 1907. On those occasions the New York banks resorted to suspension long before their reserves were exhausted. While the power of outside banks to deplete the reserves of the New York banks may be somewhat curtailed, some means for ensuring the effective use of reserves is absolutely essential if we are to escape suspension in future emergencies.

Since the establishment of the national banking system suspension, more or less complete, has been resorted to on three occasions, — in 1873, in 1893, and in 1907. On all these occasions the country banks had increased their cash reserves and the ratio

of their reserves to deposit liabilities during the interval between the outbreak of the disturbance and suspension. The banks of the reserve cities and also those of Chicago and St. Louis, while experiencing some loss in their cash holdings managed to maintain their reserve ratio with almost no change. The showing of the New York banks has been in every instance somewhat more creditable, since they have lost heavily in cash, and their reserve ratio has gone below the 25 per cent. requirement. In the case of the other banks, however, it should be remembered that in suspending payments they were simply following in the wake of the New York banks. When the New York banks suspend, similar action is inevitable elsewhere, at least for all banks whose customers have wide business dealings, because through New York payments are made between different parts of the country. Moreover, there is no reason to believe that the country banks were intending to hoard the money which they withdrew from their reserve agents at the beginning of each of our successive crises. They needed additional supplies of cash if they were to meet the demands of their own depositors. But after the New York banks suspended the country banks naturally held with a tight grip all the money which they had in their possession and also endeavored to extract more from their reserve agents. The fact that the country banks held more cash in December than in August, 1907, is no indication whatever of what their position would have been if the banks in New York had not inaugurated the policy of suspension. Surely it can not be held that the country banks should not withdraw any money from their reserve agents in emergencies. And after suspension the country banks in holding their reserves intact

were following a course exactly similar to that of the city banks. The New Yorks banks themselves in 1907 held a larger reserve at the beginning of December than at the beginning of the previous month.

One of the unfortunate effects of suspension is the creation of seemingly conclusive evidence for its necessity. During the last two months of 1907 cash payments were generally restricted by the banks and, altho an enormous amount of money was added to the supply in the country, none of it was secured by the banks. Through gold imports, government deposits, issues of banknotes, and payments of cash by the banks, something like $300,000,000 was added to the amount of money in every day use or in hoards. Furthermore, a vast amount of substitutes for money was set afloat in the community.[1] It has been assumed that as much as this amount of money, perhaps more, would have been taken from the banks if they had not restricted payments. This view is, however, contrary to experience in every instance where banks have met the demands of depositors fearlessly in an emergency. Suspension increases enormously the propensity to hoard money; it also makes more sluggish the movement of money which is in actual use. We can not be absolutely certain that the New York banks would have been able to maintain payments until calm was restored; but the amount of money which went out of sight after suspension is no indication whatever of the amount which would have been required to maintain cash payments.

Comparison of the course of events during the crisis of 1873 with that in subsequent crises shows a

[1] See the careful estimate by Professor A. P. Andrew, in this Journal, August, 1908.

progressively increasing unwillingness or inability among the New York banks to make use of their cash reserves. In 1873 the New York banks at the outset of the crisis held an available reserve of $34,300,000. In the course of four weeks this was reduced to $5,800,000, and the ratio to deposit liabilities was then less than 4.5 per cent.[1] Suspension was not escaped in 1873 but it was of shorter duration than in later crises. The banks at that time were unable to increase their cash resources by any of the means which have been available in later crises. The government had no surplus of greenbacks, aside from about $12,000,000 which was almost entirely secured and retained by the savings banks. Banknotes could not be issued because the total circulation was at that time limited by law. Finally, additional supplies of gold, secured through imports, were useless for ordinary banking purposes because the business of the country was then carried on by means of an inconvertible and depreciated paper currency. Notwithstanding all these special difficulties, the New York banks, by continuing to use their reserves freely even after payments had been restricted, were able to restore confidence in a comparatively short time, and money began to flow back to them within three weeks after the outbreak of the crisis.

In 1893 the New York banks were in what was for them an unusually strong condition at the beginning of the disturbance, having early in June a cash reserve exceeding 30 per cent. of their net deposits. A succession of banking failures in the West and South led to heavy withdrawals from New York during the

[1] The figures in the text refer to the legal tender holdings of the banks. The banks also held a considerable amount of specie but it was not a free asset, as most of it had been received on special accounts payable in gold. Including the specie holdings the reserve ratio was 12.8 per cent.

latter part of June and the beginning of July. Then followed a lull and money began to be returned to New York. During the third week of July banking failures were renewed in the West and South and the drain was resumed. The positively unfavorable aspects of the situation were altogether similar to those of the previous month with the one further circumstance of a reduced cash reserve in New York. On the other hand, additional means with which to meet the situation were becoming available. At the end of July gold imports in large amount had been arranged. Foreign purchases of our securities were heavy, reflecting increasing confidence in the repeal of the silver purchase law. Arrangements had also been made which would certainly lead to a considerable increase in the issues of banknotes during August and September. Notwithstanding all these favorable circumstances the New York banks suspended, during the first week of August, when they still held a cash reserve of $79,000,000, more than 20 per cent. of their deposit liabilities.

In 1907 the New York banks restricted payments when they still held a cash reserve of more than $220,000,000 and when the reserve ratio was also above 20 per cent. Both in 1893 and in 1907 suspension was not a measure of last resort taken after the banks had entirely exhausted their reserves and when there were no means of securing additional cash resources. Moreover, after cash payments were restricted the policy of the banks was unlike that adopted in 1873, in that the banks did not make further use of their reserves; they hoarded them and added to their amount, thus unduly prolonging the period of suspension.

Explanation of the failure of the banks in 1893 and

1907 to use their cash resources as completely as in 1873 is simple; but it is of the very greatest significance because it will bring to light the most serious element of weakness in our credit structure.

In 1893 and in 1907 the clearing house loan certificate was the only device resorted to in order to secure the adoption of a common policy by the banks. In 1873, as on earlier occasions when its use was authorized, provision was also made for the equalization of the reserves of the banks. Thus in 1873 the Clearing House Association in addition to the customary arrangements for the issue of loan certificates adopted the following resolution: —

> That in order to accomplish the purposes set forth in this agreement the legal tenders belonging to the associated banks shall be considered and treated as a common fund, held for mutual aid and protection, and the committee appointed shall have power to equalize the same by assessment or otherwise at their discretion. For this purpose a statement shall be made to the committee of the condition of such bank on the morning of every day, before the opening of business, which shall be sent with the exchanges to the manager of the Clearing House, specifying the following items: —
>
> (1) Loans and discounts. (2) Amount of loan certificates. (3) Amount of United States certificates of deposit and legal tender notes. (4) Amount of deposits deducting therefrom the amount of special gold deposits.

Two fairly distinct powers were given the clearing house committee: the right to issue clearing house certificates, and control over the currency portion of the reserves of the banks. This machinery was devised (according to tradition) after the crisis of 1857 by George S. Coe, who for more than thirty years was President of the American Exchange National Bank. The purpose of the certificate was to remove certain serious difficulties which had become generally recognized during that crisis. The banks

had pursued a policy of loan contraction which ultimately led to general suspension, because it had proved impossible to secure any agreement among them.[1] The banks which were prepared to assist the business community with loans could not do so because they would be certain to be found with unfavorable clearing-house balances in favor of the banks which followed a more selfish course. The loan certificate provided a means of payment other than cash. What was more important, it took away the temptation from any single bank to seek to strengthen itself at the expense of its fellows, and rendered each bank more willing to assist the community with loans to the extent of its power.

But in addition to the arrangement for the use of loan certificates provision was also made for what was called the equalization of reserves. The individual banks were not of course equally strong in reserves at the times when loan certificates were authorized. From that moment they would be unable to strengthen themselves, aside from the receipt of money from depositors, except in so far as the other banks should choose to meet unfavorable balances in cash. Moreover, withdrawals of cash by depositors would not fall evenly upon the banks. Some would find their reserves falling away rapidly with no adequate means of replenishing them. The enforced suspension of individual banks would pretty certainly involve the other banks in its train. Finally, it would not be impossible for a bank to induce friendly depositors to present checks on other banks directly for cash payment, instead of depositing them for collection and probable payment in loan certificates, through the clearing house. The arrangement for equalizing

[1] C. F. Dunbar, Economic Essays, chap. xvi.

reserves therefore diminished the likelihood of the banks working at cross purposes — a danger which the use of clearing-house certificates alone can not entirely remove.

These arrangements had enabled the banks to pass through periods of severe strain in 1860 and in 1861 without suspension. In both instances the use of the loan certificate was followed immediately by an increase in the loans of the banks, and in no short time by an increase in their reserves. The situation in 1873 was more serious, and as events proved, the reserve strength of the banks, while sufficient to carry them through the worst of the storm, was not enough to enable them to avoid the resort to suspension.

In 1884, the next occasion when clearing-house loan certificates were issued, the opposition to the provision for the equalization of reserves was so widespread that it does not appear that it was even formally considered. The ground for this opposition can be readily understood. In 1873 the practice of paying interest upon bankers' deposits was generally regarded with disfavor. Only twelve of the clearing-house banks offered this inducement to attract deposits; but by this means they had secured the bulk of the balances of outside banks. It was in meeting the requirements of these banks that the reserves of all the banks were exhausted at that time. The non-interest paying banks entered into the arrangement for the equalization of reserve in expectation of securing a clearing-house rule against the practice of paying interest on deposits. But their efforts had resulted in failure. Some of them had employed their reserves for the common good most reluctantly in 1873, and the feeling against a similar arrangement in 1884 was

naturally far stronger and more general. Moreover, the working of the pooling agreement in 1873 had occasioned heart-burnings which had not entirely disappeared with the lapse of time. It was believed, and doubtless with reason, that some of the banks had evaded the obligations of the pooling agreement. It was said that some of the banks had encouraged special currency deposits so as not to be obliged to turn money into the common fund. Further, as the arrangement had not included banknotes, banks exchanged greenbacks for notes in order either to increase their holdings of cash or to secure money for payment over the counter. Here we come upon an objection to the pooling arrangement which doubtless had much weight with the specially strong banks, altho it is more apparent than real. In order to supply the pressing requirements of some banks, others who believed that they would have been able to meet all the demands of their depositors were obliged to restrict payments. That such an expectation would have proved illusory later experience affords ample proof. When a large number of the banks in any locality suspend, the others can not escape adopting the same course. But in 1884 the erroneousness of the belief had not been made clear by recent experience.

The New York banks weathered the moderate storms of 1884 and 1890 without suspension, by means of the clearing-house loan certificate alone, and in the course of time all recollection of the arrangement for the equalization of reserves seems to have faded from the memory of the banking community. There was, moreover, in those years another potent influence which tended to lessen the likelihood of suspension following the issue of loan certificates. Many banks

were unwilling to take them out, fearing that such action would be regarded as a confession of weakness. The prejudice against them was indeed so strong that needed loan expansion did not follow the authorization of their issue. In 1890 the directors of the Bank of Commerce, then, as now, one of the most important banks of the city, passed a resolution urging other banks to relieve the situation by increasing loans and by taking out loan certificates.

In 1893 only a small part of the balances between the banks was settled in certificates at first; but by the end of July practically all balances were settled in that way and suspension followed at once. In 1907 all the banks having unfavorable balances, with but one important exception, took out certificates on the first day that their issue was authorized, and suspension was then for the first time simultaneous with their issue.

The connection between suspension and the use of clearing house loan certificates as the sole medium of payment between the banks is simple and direct. The bank which receives a relatively large amount of drafts and checks on other banks from its customers can not pay out cash indefinitely if it is unable to secure any money from the banks on which they are drawn. So long as only a few banks are taking out certificates and the bulk of payments are made in money, no difficulty is experienced; but as soon as all the banks make use of that medium, the suspension of the banks which have large numbers of correspondents soon becomes inevitable. The contention of bankers both in 1893 and in 1907 that they had not suspended since they had only refused to honor drafts on other banks was untenable. The clearing-house loans certificate was a device which the banks

themselves had adopted and they had failed to provide any means for preventing partial suspension as the result of its use. The further contention of some bankers that they had suspended because they had no money to pay out was doubtless true of a few banks, but for that very reason other banks must have been all the stronger, probably well above their required reserve.

That the arrangement for equalizing the reserves, adopted in 1873, would have availed to prevent suspension on subsequent occasions, is highly probable, indeed a practical certainty. In 1893 events proved that the banks had maintained payments up to the very last of the succession of disasters with the results of which they had been contending. During August the number of bank failures was not large and none of them was of great importance. We cannot, of course, know how soon money would have begun to flow back to New York, but certainly the suspension of payments could hardly have hastened the movement. From the beginning of September the reported movements of currency showed a gain for the New York banks, and for the week ending September 16 the gain was no less than $8,000,000. One month more of drain, therefore, was the most that the banks would have been obliged to endure, and for the needs of that month the banks would not, as in 1873, have been confined to the single resource of the $79,000,000 of the cash in their vaults.[1]

Similarly, the enormous increase in the money supply of the country in November and December, 1907, would have offset much of the loss of reserve which the banks would have incurred, if they had

[1] The increase in the amount of money in circulation for August, 1893, was estimated at $70,000,000.

continued to meet all the demands of their customers for cash. And, finally, it may be observed that in the unlikely event that alarm had not been allayed and suspension in the end had become unavoidable, it would not have made any practical difference to depositors whether the reserves of the banks had been but 10 per cent. rather than 20 per cent. of their demand liabilities.

The probability that the equalization of reserves would have served to prevent suspension in 1893 and also in 1907, brings up the question whether the banks may be expected to resort to the arrangement in an emergency. At first sight it seems unreasonable to expect banks which reap no advantage from bankers' deposits to employ their reserves to meet needs with which they are not directly concerned. On the other hand, all the banks agree upon, and share in the use of, the clearing-house loan certificate. It is a device which enables the banks to meet the demand for loans, and as the loans of the New York banks are principally to local borrowers it is the local situation that is thus relieved. This is the proper policy for banks in any community. But it should not be carried out at the cost of the rest of the community or be allowed to overshadow all other responsibilities. The continuance of loans enables the banks to escape almost inevitable loss from failures of customers through the sudden contraction of credit, and also enables them to earn profits for their share-holders. Individually all the New York banks reap an advantage not only from the clearing-house loan certificate but also from the position of New York as the money center of the country; and anything which undermines its reputation for strength is harmful to all. Finally, profits are not sacrificed when reserves are

equalized, as the reserve is not a source of profit; it is a foundation of credit, and a resource for emergencies. The use of a reserve does not in any way reduce the gains of a bank from its loans or other profitable operations. The objection to equalization is the natural objection to assisting those who should have assisted themselves; it rests upon a sound basis of human experience; but it does not follow that the refusal to co-operate must be absolute. It may be conditional upon amendment. This was the attitude of the more conservative banks in 1873. As often happens, their hopes of amendment were not realized. They proposed an indirect remedy, the prohibition of the payment of interest on bankers' deposits. A more direct remedy would be secured through the insistence by clearing-house authorities and the public that banks holding these highly explosive bankers' deposits should hold larger reserves in normal times than are held by the banks carrying on a purely local business.

It is doubtful whether it is safe to rely upon the voluntary action of the banks to revive the original and essential complement of the clearing-house loan certificate, — the equalization of reserves. Fortunately, the usefulness of loan certificates would be in no way diminished if their issue were made by law conditional upon the adoption of this means of preventing their use leading directly to the suspension of cash payments.

A more formal obstacle to the use of the reserves of the banks in emergencies should also be removed. The present law, in directing banks to discontinue lending operations when their reserves are deficient, works no great inconvenience in normal times, since the loans which are not taken by one bank can be

taken by others. In emergencies, however, when all banks should use their reserves and if necessary go below reserve requirements, the general discontinuance of loans would prove more disastrous than the suspension of cash payments. The Comptroller of the Currency might be given the power to authorize the suspension of this particular provision of the law. The same purpose might be accomplished by permitting the banks to go below reserve requirements upon the payment of a tax high enough to have a deterrent but not a prohibitive effect.[1]

This paper has reached a length which forbids at this time any discussion of certain other aspects of our banking problem, in particular the disposition which should be made of the money of the government, and the banknote question. In the next number of the Journal I intend to consider these as well as certain matters of minor importance. The necessity for some power to extend credit in the form of banknotes as a remedy in times of panic has, in my opinion, been greatly exaggerated and has come to overshadow other and more vital remedies. In any event, it may be added in conclusion, the remedies which have been suggested in these pages would to a very considerable extent strengthen our banking system, leaving a less formidable task to be performed with the assistance of currency devices.

O. M. W. Sprague.

Harvard University.

[1] See the suggestion to this effect by Professor C. W. Mixter, in this Journal, February, 1908.

THE STRUGGLE OVER THE LLOYD-GEORGE BUDGET

SUMMARY

On April 29, 1909, Lloyd George, Chancellor of the Exchequer in the Asquith Administration of 1906–10, made his financial statement for the year 1909–10, and submitted the Budget resolutions to the House of Commons. The Finance bill based on these resolutions was rejected by the House of Lords on November 30th. Not quite all the time of the House of Commons between April 29th and November 4th, when the finance bill was read a third time and sent to the Lords, was devoted to Lloyd George's great measure. Some other legislation was taken alongside the finance

bill; but from the end of April until the end of November, the mind of England was on the finance bill with greater intensity than it had been on any other legislative proposals ever submitted to Parliament.

Quite apart from the tremendous constitutional issue that was raised by the rejection of the finance bill, it is not possible to cite anything in the modern political annals of England that can be compared with the proposed fiscal legislation of 1909, and the intense and sustained universal interest that it aroused. The two years struggle in Parliament and in the constituencies that preceded the Reform Act of 1832; the repeal of the corn laws in 1846; the contest with the Lords over the extension of the franchise and the redistribution of electoral power in 1884–85; Gladstone's Home Rule bills of 1886 and 1893 — all these come to mind when an attempt at comparison is made. At each of these great crises England was aroused; and, as each crisis became acute, the excitement was intense. Particularly was this the case in 1831–32, in 1846, and again in 1884–85, and in 1886. But England never was aroused as it was aroused from April 1909 to February 1910; for never, since popular political education began in the last quarter of the eighteenth century, were the people of England, Wales, Scotland, and Ireland more generally or more completely informed on the questions at issue than they were on the proposals of the Asquith Government for meeting the new demands on the Imperial Exchequer, and concerning the claim of the House of Lords to reject the Finance bill and so to push aside precedents of three centuries standing.

Popular political education in modern England has passed through four stages. The first of these spans the period that lies between the American Revo-

lution of 1776 and the Reform Act of 1832. The second extends from 1832 to 1867, and includes the era of Chartism, which did so much for popular political education. The third covers the period between the second extension of the franchise in 1867 and the third Reform Act of 1884–85, with the movement for this third extension of the franchise achieving nearly as much for popular political education as the Chartist movement had done between 1837 and 1867. The fourth stage is that to which the Lloyd George Budget belongs. It is the stage which has been enormously influenced by the incoming of the Labor party, and the almost epoch-making changes in popular political education which the propaganda of the Labor party since 1901 has brought about. The press and the platform each had their share in popular political education between 1776 and 1832, with largest honors, as regards effectiveness of popular political education, then falling to the press. Between 1832 and 1867, it was the platform, as developed and vigorously maintained by the Chartists and the Anti-Corn Law League, that did most for popular political education. At the next stage — 1867 to 1885 — honors again fell to the press. At the latest stage, which may be regarded as beginning in 1901, the platform has obviously again had the largest share in popular political education.

This last statement may seem surprising. Ours is the day of half-penny morning and evening newspapers in England. The advent of the half-penny morning press in the middle nineties of the last century revolutionized newspaper production and newspaper distribution. So completely has newspaper distribution been revolutionized that there can scarcely be a hamlet in England, no matter how small or

how remote, which sometime in the course of the twenty-four hours is not now reached by the half-penny newspapers of London, Birmingham, Manchester, Liverpool, Leeds, or Newcastle. Never did the daily press — penny or half-penny — give closer attention to Parliament and its work than between the end of April and the end of November, 1909, when the Budget was being pushed through its various stages in the House of Commons, or was awaiting its fate in the Lords. But neither the friends nor the foes of the Budget were content to leave to the press the work of making the Budget understood in the constituencies. Had there been no daily newspapers, had the half-penny and penny daily newspapers suspended publication after April 29th, the advocates and opponents of the Budget could not have made a greater or more continuous use of the platform than they did from June 1909, until nearly the end of January 1910. Lloyd George and his colleagues of the Asquith Administration realized even before the Chancellor of the Exchequer made his exposition of the new fiscal proposals on April 29th, that they were attempting the most difficult task ever faced by a Liberal Government. It was more difficult than Gladstone's tasks in 1886 and 1893, for then it was known that Gladstone's attempts at legislation were hopeless, because the House of Lords would never pass a Home Rule bill. In 1909, Asquith, like Gladstone, was confronted with the House of Lords. But for three centuries the House of Lords had occupied a quite subordinate, almost exclusively formal place in financial legislation, and it must have been the conviction of the Asquith Government in April 1909, that if they could convince the country that the financial proposals were equitable, and that thirteen-

and-a-half millions sterling of additional revenue must be raised from new sources, the Lords might protest, but would none the less follow the precedents of centuries, and give a formal assent to the new finance bill.

The Liberal party in England to-day is at an enormous disadvantage in the press. From 1776 to 1886, the progressive party, whether Whig, Liberal, or Radical, had continuously the advantage in the press. In this period the journals which were of service to Liberalism were usually self-supporting and commercially successful; while hundreds of thousands of pounds had to be raised among wealthy members of the Tory party to subsidize the Tory press. But there came a change in 1886. In London and in provincial England, and in Scotland and Ireland, many daily newspapers that had hitherto been with the Liberals went over to Liberal Unionism. In the long run this meant that they became Tory journals, and to-day, for one first-class self-supporting daily journal which is with the Liberals, there are three or four newspapers of as good a class that are with the Tories and the reactionaries of 1909–10. Asquith and his followers were conscious of this disadvantage as regards the daily press, when they were confronted with the task of bringing people to realize that the new taxes on urban land, on mining royalties and wayleaves, and on the monopoly value of liquor licences, were equitable, and that there must be some new taxation to finance old age pensions and the addition of eight Dreadnoughts to the fleet.

Confronted with this situation, the Asquith Government adopted some of the propaganda methods of the Labor party. The Labor party has never had a daily press. It has from the first had to carry on

its propaganda almost exclusively from the platform. Like the Methodists of the last half of the eighteenth century, and like the Salvation Army of the last half of the nineteenth, the Labor party has carried its message direct to the people. It has looked for little or no help from the daily press. Aid, it is true, has come from the press in the last four or five years. But it has come in the news columns rather than on the editorial pages, and it has come, not because there was any editorial sympathy with the aims and policies of the Labor party, but because there was a distinct and obvious news value in the doings and achievements of the party in and out of the House of Commons; for even half-penny Tory newspapers of the Harmsworth and Pearson schools cannot thrive on Tory editorials, minus the news of all the political parties.

It was in this carrying of a message direct to the people that the Asquith Government, during the unprecedented political struggle in the constituencies over the Budget, followed a lead that the Labor party had taken from Wesley and Booth; and, as regards the daily press, the gain to the Liberals was as immediate and as valuable as that, which, since 1901, has accrued from its propaganda methods to the Labor party. The Liberals — the Administration as well as the rank and file of the party — were convinced that they could win success with their financial proposals if only they could make them popularly understood. With their majority in the House of Commons of 170 over Tories and Nationalists combined, they were convinced that it was only necessary that the Budget should be understood in the constituencies to secure its enactment by Parliament. Everything depended on the constituencies. With

these at the back of the Asquith Administration, the Budget must go through the Commons with little or no loss of Liberal support there, and it could never have been imagined by the Liberals in April, that the Lords would dare to make the audacious innovation that put an end to the Budget in November. Accordingly, between the adoption by the House of Commons of the fiscal resolutions on April 29th, and the beginning of committee stage on the bill in which these resolutions were embodied, the Budget League was organized, under the direction of Sir Henry Norman; and there then began the most extensive and the best organized work of popular political education ever undertaken in behalf of a measure that was pending at Westminster. In 1831–32, there was much propaganda work in the constituencies in support of Grey and the Whig Ministers who were struggling at Westminster with a Tory opposition to the Reform Bill in the Commons and in the Lords. At the time of the repeal of the corn laws in 1846, there was again an active propaganda in the constituencies; but for this measure most of the effective propaganda work — most of the work of bringing the public mind round to repeal — had been done long before Peel committed his government to the measure of 1846. In the same way most of the propaganda for the extension of the suffrage in 1867 had been done before Disraeli and the Tory government of 1866–68 took heed of the signs of the times, and stole a march on the Whigs and Liberals by extending the franchise to the working classes in the Parliamentary boroughs. The agitation which immediately preceded the reform of 1884–85 is of all political agitations since 1832 most nearly akin to the agitation over the Budget of 1909–10, because in 1884 the Lords obstructed and it was

then necessary to continue the propaganda for the extension of the franchise to the working classes in rural England until the Lords had receded, and the bills of 1884 and 1885 were safe. But not one of these earlier and historic agitations is quite comparable with the propaganda of May to November, 1909, and not one of them was so systematically carried out, or on so extensive a scale.

In those seven months, England witnessed a spectacle quite new in its political annals. The large force of members forming the Liberal party in the House of Commons was divided into two battalions. One of these battalions remained at Westminster to carry on the fight over the Budget in the House of Commons, to be on hand for the 540 divisions on the resolutions and the bill that were forced by the Tory opposition. Members of the second battalion, working under the orders of the Budget League, were in the meantime out in the constituencies engaged in the work of popular political education. Between May and November, while the propaganda was solely in support of the new taxation proposals, there were hundreds of Budget League meetings every week. The activity of the League was as great and as far-reaching as that of the Anti-Corn Law League of 1840–46, while, as regards speakers, the Budget League was infinitely better equipped than the Anti-Corn Law League ever was; for it had a call on the services of members of the Administration, as well as on those of the rank and file of the Liberal party in the House of Commons. On some evenings in the summer and autumn of 1909, there were nearly as many Cabinet ministers and members of the House of Commons on Budget League platforms in the constituencies as there were members of the Administration and of the rank and file going

through the division lobbies in support of the Budget at Westminster. It is from this aspect that the Budget propaganda differs from all previous political agitations in England; for there never had been a propaganda work in which so many members of the Cabinet were continuously engaged. Queen Victoria, as can be learned from her published letters from 1837 to 1861, strongly deprecated the appearance of Cabinet Ministers on political platforms outside their own constituencies. Six-sevenths of the members of Asquith's Administration, had Queen Victoria been still alive, must have suffered from Her Majesty's displeasure. Burns in the House of Commons, and Loreburn, Morley, and Wolverhampton in the Lords were about the only members of the Asquith Cabinet, who had no share in the work of popular political education in the constituencies, as it went on from the introduction of the Budget resolutions on April 29th, to the rejection of the Finance Bill by the House of Lords on November 30th. Members of the Adminsitration and of the rank and file of the Liberal party in the House of Commons took turns in work for the success of the Budget. When they were not in the constituencies, they were at Westminster, and vice versa; and all this propaganda work in the constituencies was supplemented by Liberals and supporters of the Budget outside of Parliament.

Newspapers of both political parties could not do otherwise than keep their reading constituencies in touch with all this political activity. The Tory newspapers had also to give attention to the propaganda work of the Budget Protest League, which was organized on June 12th, by Mr. Walter Long, M.P. But the Tory opposition in the House of Commons

was numerically weak. It was weaker than any opposition since the disruption of the Tory party over the repeal of the corn laws in 1846. Balfour and his followers numbered only 149 in the last of the 540 divisions on the Budget, — that of November 4th, by which, on a vote of 379 to 149, the Finance bill was read a third time and sent to the Lords. So placed, the Tory party was not able to send many of its members from the House of Commons to aid in the propaganda of the Budget Protest League.

It was largely owing to the lack of effective work in the constituencies against the Budget by Tory members of the House of Commons, that the earls and the dukes came into prominence in July and August and gave a distinctly class turn to the struggle. From about the middle of July until the end of the propaganda for and against the Budget, and again after the constitutional crisis had been reached by the action of the Lords on November 30th, and until the polling began in the middle of January, the struggle had undoubtedly its class aspects. There was during these months — July to January — more hostility to what remains of feudalism and feudal rule in England, political and social, than at any time since the throwing out of the Reform Bill of 1831 by the House of Lords. In and out of Parliament — but especially in the struggle as it was waged in the constituencies — there were more bitter words against the House of Lords than at any time in English history, and a greater insistence from the platform that the time had at last arrived when a drastic reform of the House of Lords was the immediate task for democracy. That the struggle took this turn five months before the House of Lords committed itself to the gamble

of the Lansdowne resolution, passed on November 30th, must be attributed largely, I think, to the lack of discretion shown by the earls and the dukes, who in July and August either took to the platform, or wrote letters for publication, assailing the Budget and its authors and pleading for popular sympathy for themselves in their opposition to the new taxation which the Budget was threatening for the owners of urban and mineral lands. After the Lords had rejected the Budget, nothing could have prevented the bitter attack on feudal privileges and feudal rule which characterized the struggle in the constituencies from the beginning of December to the end of the pollings in January. With the Lansdowne amendment carried, every thing in the constitutional organisation of England that Englishmen have fought for since the days of James I was at stake. English people had grown accustomed to Tory reaction bebetween 1895 and the end of the Balfour Government in 1905. The Education Act of 1902 and the Licensing Act of 1904 are to-day monuments of how far a Tory government will go in reactionary legislation. But when the Budget was rejected at the bidding of Lansdowne, Cawdor, Curzon, and Milner, and other reactionary peers, and precedents of three centuries standing were audaciously swept aside, England was confronted with a revival of mediaeval rule, with the loss of the control of taxation and appropriation by the House of Commons, with an end to government by party and to the system of cabinet responsibility which is the most obvious and most serviceable outgrowth of government by party.

It would seem that responsibility for the early introduction of class feeling must lie with peers like Derby, Beauport, Londonderry, Portland, Marl-

borough, Rutland, Bedford, Buccleuch, and Somerset. These peers did not wait until their opportunity came in the House of Lords. They were not disposed to leave the case against the new taxation to the Tories in the House of Commons, or even content to act in conjunction with the leader of their party. Otherwise Balfour would not have been embarrassed, as he was, by the early extra-Parliamentary utterances of his supporters in the Lords, and there would not have been appeals in the *Times* from Tory Parliamentary candidates in the constituencies, for the storage of the peers in safe-deposit vaults until the struggle over the Budget in the House of Commons was at an end. With these peers, it was each for his own hand, and each had his own notion of how he could best awaken public sympathy for his own hard case.

The Earl of Derby, who owns some 69,000 acres of land, much of it in the urban centres of Lancashire, announced on July 29, that, with the Budget pending, he was curtailing his subscription list, and that "after consideration he had had no option but to strike off the Cheshire Agricultural Society from the permanent list." The Duke of Portland, credited with the ownership of 183,000 acres of land in England and Scotland, and a large owner of mining royalties, on August 3, explained to his tenants at Welbeck how the Budget was likely to affect that neighborhood. "A thousand pounds weekly," he said, "was spent in wages, nearly one thousand individuals being employed on the estate. It was unhappily too obvious that through no wish of his own, that sum would have to be largely diminished in the new circumstances indicated by the Budget, and that the result of the change — whatever it might be to himself, did not

matter one two-penny ha' penny bit — could not be otherwise than disastrous and fatal to those living in the neighbourhood." "If the Budget became law," the Marquis of Londonderry announced on August 21st, "he would have to stop his practice of giving some of the game shot on his preserves to the unemployed." Similar methods of evoking popular sympathy were adopted by the Duke of Buccleugh and the Duke of Somerset. "I would have been very glad to have sent you a subscription," wrote Buccleuch to a football club at Dalkeith, "but owing to the large prospective increase in taxation caused by the present Budget, it has been found necessary to curtail very largely the annual subscriptions to such objects, and I much regret therefore, that it is impossible for me to send such a subscription." Somerset is the owner of a large estate at Wilpshire, a suburb of Blackburn, Lancashire. "Owing to the spoliative effects of this Budget," he wrote on July 19th to the people on his Wilpshire estate, "I am regretfully compelled to consider in the near future means of adjusting my outgoings to the new demands made on me. If in doing so, workpeople have to be discharged who have worked for me for years, if I have to forego improvements and cut down the wages bill, if I have to lessen and in some cases entirely stop my subscriptions to charities and associations, I trust that it will be understood that no one more bitterly regrets these retrenchments than I do, and the necessary hardship that they will bring on the workers and families who directly or indirectly live by the land."

The Dukes of Beaufort and Rutland took another line. Beaufort is master of a foxhunt, and at a "puppy walk" at Cirencester, Gloustershire, he

told the people assembled for the occasion, that he would like to see Winston Churchill and Lloyd George in the middle of twenty couple of draghounds. Rutland declared, July 14th, that the Finance bill was the product of Socialists. "Personally," he added, "he would like to put a gag into the mouth of every labor member in the country and keep it there."

Utterances like these, infusing class bitterness into the struggle in the constituencies months before the House of Lords rejected the bill, account for another aspect of the struggle, as it was waged away from Westminster up to the end of November. After the threats to discontinue presents of game to hospitals and unemployed and to stop subscriptions had become public, friends of the Budget in the neighborhood of great territorial palaces went to the rate books to ascertain the valuations at which these mansions were assessed for the poor rate, and for municipal and county charges. It was then discovered that Chatsworth in Derbyshire, the home of the Duke of Devonshire, was paying on a rental valuation of £770, and that Cardiff Castle, the home of the Marquis of Bute, was rated at £921 10*s*. These are instances of the rating of mansions in the provinces. It was ascertained that in London, Lansdowne House and grounds, Berkeley Square, estimated to be worth £8 a square foot were assessed at a rental value at 7½*d*.; while a club in the immediate neighbourhood was assessed at 5*s*. 6½*d*. per square foot. The rate-book value of Devonshire House, Piccadilly, was about 6*d*. per square foot, while that of a hotel divided from Devonshire House by a narrow side street was on the rate books at 12*s*. a square foot. Scores of similar examples of valuations of territorial mansions

for local taxes were unearthed all over England, especially after the peers had begun their vigorous and persistant attack in the country on the land valuation clauses of the Budget. It was out of these exposures that there was developed the cry of tax dodging against the peers and the other large landed proprietors.

It had long been known to the few who are familiar with the traditions and details of English rating that the great mansions of the aristocracy were not carrying an equitable burden of local taxation. They have thus escaped their full quota to poor law, municipal, and county charges from at least three causes. In England all local taxation is based on rental values. The great mansions are seldom for rent. Hence there is an absence of any basis for rating; and for generations the mansions have been on the rate books at merely nominal rental values. They have stayed at such ridiculous valuations because no one in the parishes concerned cared to antagonize the local feudal aristocracy by objecting to the assessments. Another reason was the long sustained and assiduous cultivation of the notion that the palaces brought visitors to the spot, added to the amenities of the locality, and found work for men and women living in the neighborhood. A third reason was that which had been put forward in the forties of last century against the repeal of the corn laws, — that the great landowning class is of singular social and political value to the nation and that people do wisely to make some sacrifice for its benefit.

Tho it was not news to people familiar with the usages of local rating that there were hundreds of great mansions all over England in respect of which the payments to parish and municipal or county

burdens were much less than those of retail traders in the same town or parish, these disparities, old as rating itself, now became widely known through the press, and the general knowledge of them added to the class antagonism which was aroused by the struggle over the Budget. Class antagonism was further heightened by the unanimity with which the land-owning peers threw in their lot with the Chamberlain movement for a return to protection, with import duties on grain and foodstuffs. English people in general understand that a return to protection would mean higher rents for farmers who hold under year to year agreements from territorial proprietors; and in industrial England there was resentment against the peers who, by their opposition to the Budget, were not only seeking to avoid the new taxation the Budget was to impose on owners of urban lands and minerals, but whose only alternative was import duties from which large and immediate returns would accrue to themselves in the shape of increased rents for agricultural lands.

The constitutional issue did not come into the struggle until the end of November. Thereafter until the pollings in January, the Budget and protection were subordinated on the platform to the issue with the House of Lords. Opponents of the Budget and advocates of protection sought to keep these issues to the front between November 30th and the pollings, and to subordinate the revolution threatened by the vote on the Lansdowne resolution. Little success attended these efforts. The Budget and protection had been continuously discussed from May to December. But when the constitutional issue was projected into the campaign, it became the one question that audiences cared to hear discussed. Tory speakers, who, after November 30th, were

disposed to canvass the Budget and protection, usually met with an impatient, if not interrupted hearing, and were often compelled by their audiences to narrow themselves down to a defence of the House of Lords. Here many of the Tories were on uncertain ground, even at Tory meetings; and as the struggle on the constitutional issue proceeded, they were compelled to admit, as soon as they approached the constitutional issue, that the hereditary principle could not be defended, and that if the anti-Budget and protectionist party succeeded at the General Election, it must without delay undertake a reform of the House of Lords.

From May until November, however, the Budget and protection held the field, and there was in progress in these seven months an educational campaign for which, as has been said, there is no precedent in English history. All this popular political education centered about the work of the two leagues — the Budget League, with Norman as its organizer, and the Budget Protest League, of which Long was the guiding spirit. In platform ability and in the number of meetings, the Budget League easily had the advantage. This was especially so in the large urban centers, where since the middle years of the nineteenth century municipal development has been much retarded and often warped by the inability of the municipal councils to bring centrally located, but unoccupied land, on to the tax lists. Tho the propaganda of the Budget League covered rural as well as urban England, its most effective work was done in the large cities and in the great manufacturing centers, where the existing method of assessing unoccupied land for rating is a grievance that goes back to the early days of the municipal era that began in 1835.

The Budget Protest League, tho this also pushed its propaganda in the centers of population, found its most promising field in rural England, where meetings could be held under the shadow of a territorial mansion, with a duke or earl in the chair; invitations being sent to the tenantry of a great estate, and an audience rounded up by the land agents of local landed proprietors, often aided by the knights and the dames of the Primrose League. A political organisation like the Primrose League could exist and flourish only in a feudal country such as England, with its highest social rank dependant on landed possessions. It thrives best, — indeed almost exclusively, — in those parts of England which are still feudal in their political and social organisation; and it was in these places that the Primrose League rendered effective service to the propaganda of the Budget Protest and Tariff Reform Leagues.

In urban England, much of the anti-Budget propaganda work was done by the Chamberlain Tariff Reform League. The House of Commons had not seen Chamberlain for three years before the Budget was introduced. He had not been on a political platform during this period of enforced retirement from active public life. But Chamberlain during his absence from platform and Parliament had written scores of letters in support of the propaganda to which he committed the Tory party in 1903. At every by-election from 1906 to 1909, there was a Chamberlain letter to the Tory protectionist candidate, which was used as a manifesto from the Tory leader. Just as soon as the Lloyd George Budget was introduced, Chamberlain's public letters were anti-Budget and protection. His messages from Birmingham went to the Tory and Anti-Budget candidates at the seven

by-elections (Attercliffe, Stratford-on-Avon, Cleveland, Mid-Derbyshire, Dumfries Burghs, High Peak Division of Derbyshire, and Bermondsey) that were fought on the Budget between April 29th and November. At all of these elections, except that at Bermondsey, the Liberals, much to the dismay of the Tories, held their own; and at Bermondsey, where the election came at the end of October, when the Finance bill was at Committee stage in the House of Commons, a Liberal seat was lost owing to the intervention of a Labor Socialist candidate.

Chamberlain gave an anti-Budget lead at all these by-elections, quite as pronounced as that of Balfour or Lansdowne. On the question of protection he was of course much more aggressive than Balfour, concerning whom there was a lament in the Tory party as late as December 31st, that his leadership offered a striking contrast to Chamberlain's dashing tactics in the fight for import duties on food stuffs and manufactures.[1]

Tho he was confined to his room, and could only write letters and prompt those of his Tory colleagues who were near him, Chamberlain was the actual leader in the anti-Budget fight as well as in that for protection. He continued to be the real leader after Balfour had begun to bestir himself — to show a hazy interest

[1] "Chamberlain," read this complaint (London Letter by cable to the Star, Montreal, December 31st, 1909) "in 1903, flung down his new tariff in outline, and defied the Radicals to pick holes in it. His tariff proposals stand in substance to-day as the accepted policy of most Unionists, with the minor modifications made by the Chamberlain Tariff Commission. But Balfour still clings to the broad principles and eschews details. It has been common knowledge for months past that he has been going over the Commission's policy point by point with the Commission staff, and with the closest sympathetic care; but, when pressed as he has been much pressed recently, to answer yes or no whether he will put two shillings per quarter on foreign wheat and one shilling on colonial, as the Commission proposes, Balfour falls back on his statement 'I am prepared to impose moderate duties on anything that may be necessary in order to carry out the cardinal and accepted features of the Unionist policy'."

in protection — and after Curzon and Milner came vigorously into the struggle in the constituencies and bade democracy do its worst in revenge for the Lord's rejection of the Finance bill. It was a letter from Chamberlain, written to the great Budget Protest League demonstration at Bingley Hall, Birmingham, addressed by Balfour on September 22nd, that first put forward on the part of any responsible leader of the Tory party of the Commons, the audacious contention that it was the duty of the Lords to push aside violently all precedents and accepted theories of the working of the constitution and throw out the Budget. More than any man in the Commons, perhaps more than any one man of the House of Lords, he is responsible for the struggle in which England found itself engaged in the closing days of 1909 and the opening weeks of 1910.

Three explanations of the action of the Lords can be offered: (1) dislike and dread of the land valuation scheme which was part of the Finance bill, and which was necessary if any part of the unearned increment accruing from urban land was ever to find its way into the Imperial Exchequer; (2) pressure from the liquor interest, which has been uniformly Tory, and which of course was hostile to the proposed tax on the monopoly value of liquor licenses; (3) the unconcealed eagerness of the landed classes, associated since 1903 with Chamberlain in his fiscal campaign, to stampede the country into protection. Had there been no Chamberlain propaganda for a return to protection similar to that which was abandoned in 1846, — had Balfour never tacitly left the lead of the Tory party to Chamberlain, — it is extremely doubtful whether the tremendous constitutional issue which the Lords forced on the country would have been

raised. Without the existence of the movement for protection, in which all peers who are large owners of land are directly interested, it is more than probable that sharply worded protests entered on the Journals would have marked the limit of the hostility of the Lords to the Lloyd George Budget. Valuation the land-owning peers admittedly dread, and with good reason, as the revelations on rating during the struggle over the Budget made obvious. The interests of a large number of peers are also closely interwoven with the liquor trade, and for forty years the liquor interest has been the valuable ally of the Tory party. It is a commonplace of English politics that at elections every public house is good for ten Tory votes. But land valuation and loyalty to the vested interests of the liquor trade would not of themselves have been sufficient to impel the House of Lords to its vote of November 30th. The protectionist movement and the interest of the peers in import duties on grain and food stuffs turned the balance. Scores of bucolic peers, who at ordinary times ignore Parliamentary work, but who hurried to Westminster after the Finance bill left the House of Commons on November 4th, are not owners of either urban or mineral lands. Agricultural land was untouched by the Budget, except in so far as there was an increase in the estate duties. But rent of most of the agricultural land of England, Wales, and Scotland, would move upwards within eighteen months of the enactment of a protectionist tariff which imposed duties on grain and other farm products; and it was loyalty to Chamberlain and his protectionist movement, and also a lively sense of the gain to accrue from protection, that drew two hundred peers, ordinarily unknown at Westminster, to the House of Lords to help

to sign the death warrant of the Finance bill of 1909.

The first call to these peers was Chamberlain's letter of September 21st — the letter, already referred to, that was read at the Bingley Hall meeting at Birmingham. It is a letter that must always be of historic value, more valuable as a document than any speech or letter from the nominal leader of the Tory Party. It is valuable, too, as a measure of the distance which Chamberlain had travelled between the contest with the Lords over the extension of the Parliamentary franchise in 1884 and the infinitely greater struggle with the Lords in the winter of 1909–10. Chamberlain was with Bright and Gladstone in the contest in the autumn of 1884 — in the campaign that followed what had amounted to a rejection of the bill for the extension of the franchise to the working classes, outside the Parliamentary boroughs. Bright was the Winston Churchill of the struggle of 1884. Chamberlain was the Lloyd George; and at Denbigh on October 20th, 1884, he made a speech against the claim of the Lords which must be read alongside his letter of September 21st, 1909, to gauge the length of his journey along the road of reaction since he parted company with Gladstone and the Liberals over the Home Rule bill of 1886. At the height of the campaign against the Lords in 1884, Chamberlain asked: —

> Are the Lords to dictate to us, the people of England, the laws which we shall make and the way in which we shall bring them in? Are you going to be governed by yourselves, or will you submit to an oligarchy which is the mere accident of birth? Your ancestors resisted kings, and abated the pride of monarchs. It is inconceivable that you should now be so careless of your great heritage as to submit your liberties to this miserable minority of individuals who rest their claims upon privilege and upon accident.

This was Chamberlain's attitude to the Lords, when, in 1884, he stood in popular estimation next to Gladstone in the conflict then waging for the third extension of the franchise since 1832. He wrote on September 21st, 1909, when he was the actual if not the titular leader of the Tory party:—

> The citizens of Birmingham have always been democratic, and in the present case I think they are likely to support any attempt to get the present controversy referred to the people, who in the last resort ought to decide between us and the Government. I hope the House of Lords will see their way to force a general election.

Later Chamberlain went even further, after the Lords had fulfilled his hope. He wrote on December 14th—

> We have to determine once for all whether in disregard of the experience of our own flesh and blood elsewhere throughout the English-speaking world, we above all nations can do without a Second Chamber. I do not think that our people are prepared for such a change as this, and I believe that a House of Commons entirely uncontrolled would be a great public danger. It would be much worse than the House of Lords, which, just because it is a hereditary Chamber, must depend for its success in interpreting the true mind of the people . . .It is better to abolish Cobdenism and not the Constitution, to pull down free imports and foreign privileges in our market, and not the Second Chamber, whose only offence is in giving the nation a chance to speak for itself. Let the workers defend their work and stand by the Peers who in this case are standing by them. If the issue of tariff reform were submitted by itself there would be no doubt whatever of the reply.

The Chamberlain Tariff Reform League had long been preparing for a general election. It was ready for an appeal to the constituencies before the Budget was introduced, and before it was known that the Budget, plus the constitutional crisis, was to occupy the public mind from May 1909 to the end of January

1910. Its opportunity came when the Budget Protest League was organized and began its propaganda. The Tariff Reform League was soon alongside the Budget Protest League, and from thousands of platforms between May and December there were protests against the Budget: condemnations of it as socialistic, and as discriminating in the classes of property made liable to imperial burdens, and arguments for the program of the Tariff Reform League, as an alternative. If the activity of the Budget Protest League, the Tariff Reform League, the Primrose League, and the various organisations of the liquor trade be grouped as of the propaganda against the Budget, as it all undoubtedly was, it is difficult to say on which side there was the greatest political agitation between May and December.

An accurate estimate of the armies in the field, however, and of their activities is of no great consequence. The fact of importance and of historic value is that never before in England was there such a wide-spread and universal campaign of political education as in the months that intervened between the introduction of the Budget to the House of Commons, and its rejection by the Lords. Sport, trade, and finance, and advertising had necessarily to be cared for by the daily press, — otherwise newspaper publishers could not meet their weekly bills, — but for the rest politics — Parliamentary and extra-Parliamentary — held the field. During these months, politics, whether at Westminster or in the constituencies, meant only the Budget and the alternative scheme of the Chamberlain and Milner protectionists. Hoardings in the cities, and blank walls in the rural areas were covered continuously with the picture posters of the Budget League, the Budget

Protest League, and the Tariff Reform League. The advertisements of proprietary goods were snowed under by political picture-posters of a range in conception and a style as regards design, color, and workmanship, that far excelled anything in the way of political posters ever issued from the color presses of London, Belfast, Birmingham, Manchester, or Leeds. And while these presses were working night and day to keep the hoardings and blank walls fresh in color, and in line with the progress of the struggle at Westminster, in the constituencies, and in the daily and weekly press, hundreds of other presses were at work in the cities, from which the country was soon flooded knee-deep with leaflets and booklets of facts and figures. During the first period of the campaign, — that is, from May until November, — the work of popular political education of both parties was so complete and so inclusive that there could scarcely be found in England, except in the gaols, a man or woman, or a boy or girl over ten years old, who did not know (1) that sixteen millions of additional revenue were needed to meet the new calls on the Exchequer for the fiscal year 1909–10; (2) that these millions were needed for old age pensions and Dreadnoughts; (3) in what way these sixteen millions sterling were to be raised, — what were the important new taxes to be imposed by the Budget; (4) whence came the opposition to the new taxes on urban and mineral lands and on the liquor trade; and (5) that protective duties on food stuffs and manufactures were the only alternatives offered by the Tory opposition in the House of Commons and in the House of Lords.

The Chartist movement extended over eleven years, from 1837 to 1848. It did more for political education than any movement before or since, until

the Labor party was organised in 1901. Its teachings, however, were political rather than economic. The Corn Law League was chiefly responsible for popular education in economics between the beginning of the reign of Queen Victoria and 1846. But from May 1909, to the end of January 1910, in a period of only eight months, more was done for popular education in politics, as well as in economics, than was achieved by the Chartists and Corn Law League in the whole eleven years between 1837 and 1848. If England is ever to have a politically educated democracy such a democracy ought surely to have been in existence at the time of the general election of 1910.

Amid all the turmoil of the fight, as long as it centered only about the Budget and protection, two facts stand out with remarkable clearness. There was a general agreement as to the necessity for the new expenditures that called for the sixteen and a half millions of new revenue, — a call on the sinking fund for £3,000,000 and new taxation to raise £13,500,000. These expenditures were made at the instance and by the authority of the Asquith Government; but both political parties accepted responsibility for old age pensions, and for the building of eight warships of the Dreadnought type. If there was any difference between the two parties on these questions, it was that the Tories insisted that neither policy had been carried far enough. The Tories, in their electioneering literature, promised old age pensions at sixty-five instead of at seventy (the age limit fixed by the Act of 1908) and moreover they undertook, if returned to power, to remove the pauper disqualification. These two changes would increase the expense of old age pensions from nine to fourteen

millions sterling a year. Additional Dreadnoughts were also promised by the Tories. Hence the naval and social policies of the Asquith Government which made necessary the increased revenue may be said not to have been in controversy at any time from the introduction of the Budget to the general election which began on January 15th, 1910. Consequently discussion from April to November centered mainly, if not exclusively, about the proposed new taxes and the alternative policy of protection.

Most of the discussion turned on the proposals of the Budget. These embodied some additions to existing taxes, such as those on whiskey, beer, and tobacco; the establishment of a supertax on incomes above £5000; increased stamp duties on deeds for the sale or mortgage of real estate and on the transfer of shares and bonds and other securities. The new taxes were those on urban lands; on mining royalties; on the monopoly value of liquor licenses; on motor cars and on petrol. From the first there was little or no opposition to the taxes on motor cars and petrol — except of course from the protectionists — because before the Budget was introduced, an understanding had been reached between Lloyd George and organisations representing users of motor cars, that the proceeds of these taxes were to be earmarked for building new roads for motors, and for aiding local road authorities in making existing roads safer and more serviceable for motor traffic. These taxes were scarcely in the controversy. They would not have been in at all had not the protectionists made use of the proposal to impose them to urge duties on imported cars to safeguard the interests of English manufacturers. The increased stamp duties also were soon out of the controversy. The whiskey duty became

largely an Irish question, the Nationalists in the House of Commons showing most concern. There was little opposition to the increase of a half-penny an ounce in the duty on tobacco. And, as there are large areas in rural and urban England in which men with incomes of over £5,000 can be counted without getting into two figures, the supertax found its opponents chiefly in the City of London and in the ranks of the large owners of land and mining royalties.

From beginning to end, the attack of the opposition centered mainly on the new taxes on urban lands and on the monopoly value of liquor licenses. In this attack the opponents of the taxes — the large owners of urban lands and of mining royalties, and the great brewing interests — early got out of hand. They gave the Tory party a lead which many of its supporters in the House of Commons from borough constituencies, many of its Parliamentary candidates in the great industrial centers of the Midlands and North of England, and tens of thousands of its supporters in these electoral divisions, regretted, but were reluctantly compelled to follow. Balfour has been occupied, since he ceased to be premier, in catching up with his party, rather than in giving it an efficient and determined lead.[1] The land-owners and the brewers apparently got away from him early in the fight over the Budget. To the dismay of the urban Tories, and of those Tories who are not tied to the liquor interests, the whole of the party was early committed to an uncompromising opposition to the taxes on undeveloped lands in urban centers,

[1] See Griffith Boscawen's "Fourteen Years in Parliament" one of the most enlightening of recent books on the inside history of the Conservative party since it was stampeded for protection by Chamberlain in 1903.

on unearned increment accruing to owners of urban land, on increments accruing at the renewal of urban leases, on mining royalties, and on the monopoly value of liquor licenses.

It was in connection with the taxes on urban lands that the scheme was embodied in the Budget for a valuation of all the land of England, Wales, Scotland, and Ireland. This was the proposal most persistently opposed by the great land-owners in and out of the House of Lords. Under it a grievance of half a century's standing with municipal councils would have been partially removed. All lands, urban and rural, were to be valued. The land was to be valued apart from buildings and improvements, and in the case of undeveloped land in urban communities, when a sale or a transfer was thereafter made, the value of the land entered in the new Domesday Book was to be the basis. The difference between this value and the price at which the land was sold was to represent the unearned increment. Twenty per cent. of the increase in value was to go to the Imperial Treasury. This money, going into the Treasury, was to be earmarked, part going as grants in aid to the municipalities, and part being available for Imperial expenditures.

Hitherto unoccupied and undeveloped land in municipal areas has either paid local taxes on its agricultural value, that is on the rent it was worth as farm land; or it has escaped completely all municipal burdens, because, as was frequently the case, it was so placed as to have no agricultural value. There is scarcely a large town in England or Scotland in which there is not land thus escaping all local and Imperial burdens. Such land is continuously inincreasing in value by reason of the pressure of busi-

ness or population, and is held in expectation of enhanced value, because, with no taxes to pay, it costs the owners little or nothing to keep it vacant until a purchaser appears who is willing to pay the price for which the owner is holding out. Many of the vacant sites are a nuisance, calling for extra care from the police. Others are a blot because of their use for bill posters' hoardings. Others again are covered or partly covered by shanties of corrugated iron, or of wood, which tend to deteriorate the value of adjoining properties. In many towns congestion has been aggravated for two or three generations because so much land is held vacant, exempt from taxation; while in other towns, municipal economy and development have been retarded and warped.

Municipal councils in England and Scotland for nearly thirty years have been appealing to Parliament for help in this grievous problem. Help could only have come through the Budget. No Tory Government would introduce legislation. It would have been in collision with the Lords had it even hinted at such legislation. If a Liberal Government had attempted to end this grievance of the municipalities, otherwise than in a finance bill, its measure, as may be seen from the fate of the twice-rejected Scottish Land Values bill, sent to the Lords in 1907 and 1908, would never have succeeded in running the gauntlet of the House of Lords. Overcrowding in towns was attributed by the Royal Commission on the Housing of the Working Classes of 1885 in part to the conditions on which land in urban centres is held. When at second reading stage of the Finance bill on June 8th, Lloyd George was defending the tax of a halfpenny in the pound on the value of undeveloped urban land, and the tax of twenty per cent. on unearned

increment accruing at the sale of such land, he contented himself with recalling the recommendation of this Royal Commission of 1885, and the similar recommendations of the Royal Commission on Local Taxation of 1898–1902.[1]

The second of the new taxes which would have fallen on the owners of urban land, or at any rate would have been paid by them, was to be collected on the renewal of building leases. The system of short leases of building sites is mainly a London institution. It is nearly two centuries old, and is in service on the estates of most of the great London ground landlords. It is also established to a considerable extent in Bristol, to a less extent in Manchester and a few other of the large provincial cities. Under this system, a man erects a building on the site he has leased, paying an annual groundrent. At the expiration of the lease, if no renewal is made, the building passes into the possession of the ground landlord. The leases run for periods varying from forty to sixty years. At the expiration of the lease, if the owner feels that he must continue business at his old site, he opens negotiations with his landlord. Two conditions, sometimes three, are then made for renewal: (1) the payment of a large sum, known in the technical language of London real estate agents as a fine; (2) an agreement for a largely increased rent for the site; (3) oftentimes an agreement that the lessee shall rebuild according to designs and specifications which shall be approved by the landlords, surveyor or architect.

[1] See the Report of the Royal Commission on Local Taxation, — 1898–1902 — "appointed to enquire into the present system under which taxation is raised for local purposes and whether all kinds of real and personal property contribute equitably to such taxation." H. V. Jones, Parliamentary Papers, 1801–1900, p. 103. Cf. Report of the Royal Commission on the Housing of the Working Classes. England and Wales, 1885, ibid., 1801–1900, p. 128.

Unearned increment has for generations been accruing to the London ground landlords under this leasehold system, with even less trouble to themselves than to owners of land in urban centres which stood unoccupied. Each million of people added to London's population; every improvement made by the County Council; London's increasing attractions for visitors from the United States and all other parts of the world; even the growing wealth of the United States, of Canada, and of Australasia, swelling the army of tourists who pour into London between May and October of each year — all these have steadily added to the wealth of the great landlords. The owner of the building pays all local taxation, on the site and on the building, for his taxation is based on rental value. The only direct gain to the National Exchequer from the falling in and renewal of London leases has been an increase in the income tax assessed on the ground landlords, due to the increased rents, and the occasional windfalls when a London ground landlord passes beyond to the region where ground landlords, surveyors, and tax-collectors are unknown. The Lloyd George Budget proposed to value all these properties in London, Bristol, Manchester. Value of site and of building would have been entered separately on the new Domesday Roll, and when a lease expired, the tax collector would have intervened with a claim for reversion duty of ten per cent. on the value of the benefit accruing to the ground landlord.[1]

[1] Section 13 of the Finance bill reads thus: "The value of the benefit shall be deemed to be the amount (if any) by which the total value of the land at the time the lease determines, subject to the deduction of any part of the total value which is attributable to any work executed or expenditure of a capital nature incurred by the lessor during the term of the lease and of all compensation payable by such lessor at the determination of the lease, exceeds the total value of the land at the time of the original grant of the lease, to be ascertained on the basis of the rent reserved and pay-

The owners of mining lands in receipt of royalties and wayleave rents were the only other land-owners who, as such, were to be liable to new taxation. There are great land-owners, such as the Bridgewater Trustees, the Marquis of Londonderry, and the Marquis of Bute, who themselves mine and market the coal under their properties. But the number of land-owners who so manage their mineral properties is comparatively small. The more general custom is for land-owners to transfer the privilege of mining to limited liability companies, subject to the payment (1) of a rent, much in excess of the agricultural renting value, for land used for pit-gear and surface equipment and miners' cottages; (2) of a royalty on all coal mined; (3) of rents for wayleaves giving a right of way across the property of the landlord, from the colliery to a railway or canal or to tidewater. Mining royalties range from fivepence to one shilling and twopence per ton, depending on the quality of the coal, the cost of mining, and the nearness to large and suitable markets. In the Cleveland district, owners of iron ore lands in some cases share with mining companies the burden of local taxation. This arrangement, however, is peculiar to the iron mining country of the North-east of England. There is no such arrangement on the coal-fields of England and Wales, and the only contribution that the owners of mining royalties have made to public burdens, in respect of them, has been through income tax. Royalties on the Rhondda Valley coalfield, South Wales, reach a total of £200,000 a year; wayleaves and rents

ments made in consideration of the lease (including, in cases where a nominal rent only has been reserved, the value of any covenant or undertaking to erect buildings or to expend any sums upon the property), but where the lessor is himself entitled only to a leasehold interest the value of the benefit as so ascertained shall be reduced in proportion to the amount by which the value of his interest is less than the value of the fee simple."

of land used by the coal companies to another £30,000 a year. The coal companies pay in the aggregate £54,000 to municipal taxation; while the owners of the royalties escape scot-free so far as the cost of the poor law and of local government is concerned. The Ecclesiastical Commissioners, who hold in trust large areas of land in the County of Durham, drew, in the year ending March 31st, 1908, £430,000 in mining royalties, and were at no charge in respect for them for parish, municipal, or county taxation. By the Finance bill royalties on coal and iron ore were taxed at the rate of five per cent. and there was to have been a tax of five per cent. on wayleave rents.

Of the new taxes levied by the Finance bill perhaps the most intricate was the tax on the monopoly value of liquor licenses. But the principle of it and the reasons for it can be set out in a few lines. Between 1828 and 1869 there was an enormous increase in the number of beer shops in England, due to the licensing legislation of the Wellington Government of 1828–29 which made it as easy and as inexpensive to secure a license to sell beer as it is in an American city to obtain a dog license. In the social and economic history of England, this was the era of free trade in beer. Every cottager, eager to add to his weekly wage, established himself as a vendor of beer and porter; and the beershops added enormously to the squalor of the period. In 1869, an end was made to the granting of beer licences. But some thirty-five thousand holders of these licences in 1869 were acknowledged by Parliament as having vested interests in them, and it was enacted that none of them could be withdrawn by the licensing magistrates, unless convictions under the liquor licensing code were recorded against their holders in the police

courts. From about 1870 it became increasingly difficult to secure licences for new public houses; and between 1880 and 1904, it was the policy of most licensing benches not only to grant no new licences, but to refuse the renewal of licences for public houses (as distinct from the ante-69 beer houses) whenever an excuse could be found which would stand scrutiny at quarter sessions on appeal from the licensing bench.

From 1904 to 1909, some 5350 liquor licenses were extinguished under the provisions of the Balfour Act of 1904. That act, it will be recalled, turned all the existing licenses into freeholds, — putting all on the same statutory basis as the ante-'69 beerhouses, but provided that magistrates might extinguish licenses, and pay compensation to the license holders out of funds levied on all the licensed houses within the jurisdiction of the licensing bench. In 1881, the number of houses licensed for the sale of liquor on the premises was in round figures 106,940. To-day the licensed houses are at least 12,000 fewer than in 1881, due to refusals of renewals of licenses between 1881 and 1904, and to the administration of the Act of 1904. Tho the population of England and Wales has increased from 25,974,000, in 1881 to an estimated population of 46,000,000 in 1909, the payments into the Imperial Treasury in respect of each liquor license have remained practically the same as in 1881, when the movement towards fewer licensed houses began to awaken sympathetic public attention. The average payment for a license to sell liquor for consumption on the premises is now £18 10*s*., houses being grouped in six divisions for license duty in accordance with the ratable value of the houses to which they are attached. Under the Finance bill there was to be a tax on the monopoly value of a licence, based on

"the amount by which the annual value of the premises exceeds the annual value which the premises would bear if they were not licensed premises." This was the proposal which aroused the liquor interests. It was in behalf of these interests that Lord Rothschild convened a caucus of the Lords at Lansdowne House against the Asquith Licensing bill of 1908, — the caucus "at a famous house in a famous square" which resulted in a summary and indignant rejection of the bill. This, and the increased duty on whiskey and beer, were the proposals that at meetings of brewery shareholders from May until December led to appeals from brewing company presidents to "strive to prevent this robbery"; that led these presidents to declare that "so far as brewers were concerned, they knew no politics except their trade," that led to appeals from presidents of brewery debenture holders' committees for subscriptions to aid in financing the anti-Budget campaign; and that turned every one of the 94,056 beer shops of England and Wales, from April 1909 to the pollings in January 1910, into recruiting quarters for the Tories and the protectionists.[1]

EDWARD PORRITT.

HARVARD UNIVERSITY.

[1] "Whatever fate may be in store for rival political parties at the forthcoming general election, there can be little doubt that all who are engaged in the brewing and sale of liquors will be found recording their votes against the present Government, in the hope of doing, at all events, something to secure a respite from the anxiety and tension that have encompassed them during recent years." "Facts for the Fight," Yorkshire Post (Conservative), December 27, 1909.

THE SINGLE TAX IN THE ENGLISH BUDGET

SUMMARY

The principle of the single tax not to be questioned, 279. — The method of taxation an unfortunate device, 281. — The illusiveness of the *ad valorem* method, 286. — English Budget proposals, 287. — Grounds for expecting no serious results from them, 288.

It may be said with approximate accuracy that the economists have never seriously attacked the theoretical validity of the single tax program. In the main, in fact, they have come nearer to ignoring than to condemning. They have not been interested; or they have regarded its application as of dubious practicability, a hobby of doctrinaires and enthusiasts, a program not yet fully within the range of practical discussion, and bidding fair to deserve attention — if ever — only when more serious matters of the plan shall have been considered; or they have believed that the problem was never susceptible of treatment by other than forward-looking measures, and that any action now must come so tardily as to be better postponed a little longer; or they have declared that the evil of the unearned increment in land is merely one out of a larger class of evils, and is, therefore, in justice only to be attacked when we shall have made ready to proceed without discrimination against all: is it, for example, fair or reasonable to interfere with highway robbery while burglary still so obtrusively flourishes? And, finally, the single taxers have appeared to be men with a bee in the

bonnet, akin to the anarchists and the socialists and to other disturbers of the king's peace and the scholar's calm. Folk like these are not to be foregathered with by thinkers solicitous of their good repute. Economists of all people dread the stigma of radicalism. Far better is it to elucidate and emphasize the excellent aspects of things as they are; otherwise one may seem to question the economic harmonies, or to doubt the validity and the beneficence of natural law, or to bring in question the deft guiding of the divine hand.

Be all this as it may, it is clear that since the time of Ricardo there has been no one to question the menace attaching to the increasing pressure of population upon land. Therewith food and room must tend toward increasing scarcity. Crowded land and poor land are the same thing in their social meanings. And as the conditions of production are tending to become less favorable, food products and space for living less ample, land rents are rising as the direct and inevitable result. A smaller per capita equipment of land means, therefore, a smaller per capita volume of product and thereby a smaller income for the average human being.

Nor is this all: out of a product more and more grievously restricted the landlords are obtaining a larger and larger share. They wax fat by the general hunger. A situation bad at the best is made worse by the terms of the distribution.

Evidently also these increases in the landlord's income have no remotest reference to any merit or deserving on the part of the landlord. The owner of a town lot has raised no crop from it other than tin cans and weed seed; the city garden association has had no use of the land; more probably the small boy

has been fenced off from playing upon it. But the rental value keeps on rising. "All states and territories west of the Mississippi River, including Minnesota and Louisiana, in the year 1902 had a total assessment for ordinary real estate of $5,249,072,325, and the assessment of ordinary real estate in the City of New York exceeds this amount by nearly $900,000,000."[1] And note that the land values in Manhattan are reported to average over twice the values of the improvements.

Valid reasons were never offered why a state or a city might not well stand as the landlord over city lots. With agricultural rents, however, the case is measurably different. Some sort of institutional service doubtless attaches to private ownership. Especially is the relation of landlord and tenant disastrous to good husbandry.

Greatly impressed with the weight of these considerations and especially of the latter — but grossly mistaking their meaning — the single tax people fell into their one great error: they became single taxers. And it was small wonder. The evil was manifest, obtrusive, colossal; the machinery and the administrative methods of taxation were already at hand. Not as a question then of fundamental principle but purely as remedy, as method, as a practicable means to their great end in view, they planned to possess themselves of the tax machinery. But obviously the ultimate purpose was merely to make effective the title of society to the social estates, and out of the rents from these estates to provide for the expenses of the commonwealth. Taxation was but a means,

[1] Report of Commissioners of Taxes and Assessments of The City of New York, 1906.

a device, one way of getting at it. But it was a most unfortunate way, — not merely a bad way but, for the cases clearest in their call for remedy, an impossible way. If it were merely the rental income that was sought, the thing to do was to proceed directly against it and not to attack the derivative value.

Nor, on the face of it, does it seem greatly to matter whether a tax be imposed upon the market value of an item of durable property or upon its income. To tax a town lot worth one thousand dollars at one per cent. of its value or at twenty per cent. of its rental would appear to amount to one and the same thing — a ten dollar burden.

But this reasoning forgets that income-earning properties are valuable only by virtue of income and in proportion to income. In the market all trees come to be estimated according to their fruits. The cow is valued for the milk or the butter, the land for its net return of crop, the bond by its coupons, corporate stocks by their dividends. In technical phrase, the market value of any durable good is simply the present worth of its putative future income. To arrive at a valuation it is necessary to know merely the income and the current interest rate on the basis of which to discount these incomes into a present worth. This principle of valuation may have waited long for adequate recognition among economists, but the business world has never found difficulty in accepting it and acting upon it. Investment properties are worth that sum of money which put at interest will furnish the same income.

It follows that taxation upon property is merely a method of taking to the state a part of the income from the property. By such a fraction as the income is diminished will the market value fall. A piece of

real estate which yields fifty dollars net per annum in a five per cent. country is by that very fact worth one thousand dollars. It was precisely this line of analysis that led the single-taxers to their choice of taxation as a method of procedure; and it is to this same analysis that they have appealed for the theoretical basis of their doctrine. Unfortunately, however, it is by the test of this same analysis that their program must be condemned.

For to proceed directly against the rental when it accrues and to proceed directly against the market value when it accrues are not one thing, but two very different things. Total confiscation of an accrued value is impossible by this *ad valorem* tax. A market value of one thousand dollars resting upon an annual rental of fifty dollars can not, by *ad valorem* taxation, be made to yield fifty dollars in taxes. As soon as a fifty dollar tax is imposed upon the one thousand dollar market value, the market value becomes zero. And even with partial confiscation the case is awkward tho not impossible of treatment. It would be a simple thing to take one-fifth of the annual rent; but to impose a tax of one per cent upon the market value will not yield ten dollars. If the yield were really ten dollars the value could be only eight hundred dollars. But a tax of one per cent. upon eight hundred dollars would yield eight dollars and would leave the net income at forty-two dollars. To reach ten per cent. of the income the tax must be at one and one-fourth per cent. upon a market value of eight hundred dollars. If the rate if fixed at one per cent. the tax will return only $8.33 and the value of the land will stand at $833.33. At the utmost, the *ad valorem* method can extend no further than to impose a one hundred per cent. tax upon the market value as it

finally adjusts: a tax of 47.619% would leave a net unappropriated rental of 2.381, itself a basis for a value of 47.619.

Possibly enough an extreme single taxer would be satisfied with this degree of accomplishment in the confiscation of accrued values. Not all single taxers, however, disclose this degree of ruthlessness; not all believe in the program of confiscation. Some single taxers recognize that many of the present holders of land, perhaps most of them, are purchasers; that they have paid for the land out of savings from wages or interest; that the land now represents to them nothing unearned; and that whatever unearned increment there ever was now forms part of the nonland wealth of the sellers. And even the single taxers of the stricter discipline would much prefer that the application of the remedy had taken place earlier. They regret the individual hardships which must attend a return by society to the paths it ought never to have abandoned. And when once this return has been accomplished, a preventive and forward-looking policy is proposed; unearned increments will not be permitted to accrue.

It is then fair to ask as the ultimate test of the single tax theory how the single tax program would work in its forward-looking applications. If it fails by this test it may fairly stand as discredited.

Suppose, for example, that a pioneer society has decided to retain for itself the entire increment due to social causes. We start then with the value of a given tract of land standing at zero. Now let it be provided that whenever this land shall come to command a rental, and this rental to express itself in the market guise of a selling price, an annual tax shall

be imposed equivalent to the annual rental income. Is it not clear that on these terms no market value can ever arise? So long as a sale at any price, say at one hundred dollars, will be the signal for the imposition of a tax of five dollars per year, it is evident that no one will pay one hundred dollars for a piece of land offering an annual rental of only five dollars. The state may, however, provide that not the existence of the rental income but the mere act of attempting to buy the income shall serve as the signal for the appropriation of the income by the state. It will then be possible for a purchaser to give one hundred dollars for the land only when the income has risen to ten dollars per year. Under these conditions the tax of five per cent will still leave a net income of five dollars and will justify an investment of one hundred dollars.

Likewise no purchaser can invest one hundred thousand dollars in a property, and in addition thereto pay five thousand per year in taxes, until the income-earning power of the property, having risen to ten thousand annually, would support — were it not for the tax — a market value of two hundred thousand dollars. The state, it is evident, can by its *ad valorem* effort to appropriate the rent get no further than to appropriate one-half.

In fact, however, unless direct appeal is made to the rental income, the state will turn out to get little or nothing. The land which yields ten dollars per year, and is therefore worth two hundred dollars to keep, no purchaser can afford to buy at over one hundred dollars. *Sales can, then, hardly take place.* The state must then establish a potential or hypothetical land value: it must appeal to the rents and on the basis of these must determine not what the actual

value is or ought to be, but what it would be had the state not imposed the taxes and had sales been left possible. It is then clear that it is possible to reach the incomes by placing upon the income or the property itself a tax of ten dollars. But this is not possible if the tax is attempted to be imposed as a percentage of a market value. By the fraction that the net income is reduced the market value disappears.

This April-fool illusiveness of all *ad valorem* methods of taxation is the inevitable outworking of the essential paradox hidden in the method. To attempt to take the income and yet to leave the value is to saw off the limb upon which the single taxer has elected to sit — to eat the honey and still expect to bait bear traps with it. It recalls the case of that Frenchman who did not like spinach and was glad he did not: for, he said, "If I liked it I should eat it, and the very smell of it makes me sick." The kitten's fashion of chasing its tail is a pleasing and instructive exercise to watch — especially for its logical implications; but as bearing upon the art and mystery of tail-catching it teaches effectively how best not to do it; and it may some time suggest by analogy the absurdity of attempting to appropriate the value of railroads and other franchises by taxing the market value of the stocks and bonds: or some day — pretending to things still more serious — it may lead to an abandonment of the attempt to prove the existence of a Creator by an appeal to the doctrine of causation.

With the sudden appearance of the single tax as a political issue in England the entire single tax discussion takes on more than a purely academic interest. The economists will now retain no choice: they will have to be interested.

First is to be noted that the Liberal leaders are contemplating no attack upon such values as have already accrued. If these are affected, it will be by inadvertence or sheer mistake. Land values having long been traded in have now come to represent all sorts of saving and investment. True it may be — tragically true no doubt it is — that the ten thousand present owners of the soil of England make the rest of the nation " trespassers in the land of their birth." But no remedy is offered for this. Perhaps no remedy is possible of offering; it may be now too late for society to assert its claim to those values of which society alone has been the creator. The fault has been historical and institutional — one for which the nation as a whole should pay the penalty rather than that a few individuals or a class should be offered up in vicarious atonement. Surely wholesale confiscation of existing land values is wholesale robbery.

But even of the future increments the Lloyd-George program will take only an insignificant part. Society is to claim merely a part of that to the whole of which the claim must be valid if there be valid claim to any share.

Perhaps the explanation of this exceeding tameness is to be found in political expediency; the principle may be strategically the stronger as its application is less drastic and its logic less heroic. The important thing has seemed to be to force an immediate valuation of present values of land and to place these values definitely upon record in order that future increments may be disclosed for whatever purposes the future may require to know the facts. The landed classes appear to accept the menace of this one-fifth tax a deal more equably than the mere fact that a valua-

tion must take place. What may later come of this valuation scheme? What may be the unknown purposes or uses which it will later serve? The thing is full of menace, the more for its vagueness; the terror of the darkness of unknown waters is upon the proprietors. The claim to the future one-fifth might go unchallenged; it is about the question of the immediate values that the contest rages.

Note, indeed, how velvety harmless is the grip of this new tax in its purely fiscal bearings. The government will collect nothing immediately; it merely gets the property appraised. Take it that a city lot is now worth ten thousand dollars; that it will with the lapse of a hundred years become worth thirty thousand dollars; and that either by sale or by death it will change ownership every tenth year. No tax is claimed now — only the valuation fixed. At the end of each tenth year an increment-tax is imposed of twenty per cent. upon a two thousand dollar increase on value. In a century the government will have collected four thousand dollars of transfer fees out of a twenty thousand dollar social creation of value. Surely the landlords need not be greatly exercised about this *purely as tax*. But they might well be less concerned than they are; for the tax may be warranted not to work.

(1). Even the preliminary valuation is not suited to any fiscal purpose. With every increasing assurance that the new tax program will be adopted, and will work, there must concurrently be taking place a fall in the market values of the lands. So far as transfers are actually occurring, these effects must be already manifest in falling prices. And when finally the law has been enacted, the values of lands will have fallen in a degree to express the present worth

of the expected future increases in the tax burden. Such lands as are thereafter sold will exhibit in their sale prices this prospective diminution of income. The effect on actual sellers, therefore, is that of immediate expropriation rather than the mere menace or promise of a future burden. Purchasers will acquire the properties at the diminished prices expressive of this fall in expected income. The real tax payer is, therefore, the present vendor. If the new proprietors are ever called upon to feel any burden it must be solely by the fact that they have mistakenly appraised the degree of menace.

(2) The sheer fact that the present values are depressed, and that the later advances in value (if they ever come) must be so much the greater, and thereby the tax proportionately heavier, will tend to discourage present owners from either present or future sales. That is to say, all lands will tend to become more desirable to hold for their rents than to sell at their net prices after paying the tax. The larger, also, the accrued increase in values the greater becomes the differential in favor of a continued refusal to sell.

(3) Every fall in the current rate of interest will tend to swell these differentials and further to stagnate the land market. Our illustrative tract of land, it will be remembered, was worth one thousand dollars because it commanded fifty dollars of annual income. Let interest fall to 2 1/2% and the land forthwith becomes worth two thousand dollars. No increase of rentals has taken place; it is the mere fact of a change in the rate of interest that has pushed up the value of the land, the unearned increment of the land, and thereby the transfer tax, and so has made it increasingly unwise to sell the land.

(4) But if the land has sold, great hardship may attend a fall in the rate of interest. A purchaser pays, we will say, one thousand dollars as the price of a fifty dollar annual rent charge; no increase takes place in this rental; but the interest rate falls. His property is now worth two thousand dollars. Forthwith the state becomes entitled, if only it can somehow catch him, to fine him two hundred dollars, — for what? On the other hand, with a rise of the rate of interest, an increase in earning power may take place; but this being unattended by any value increase, the state lacks all *ad valorem* basis for increasing its tax.

(5) Nor will it avail to appraise the land at the market value which it bore at the outset of this agitation. The sales must henceforth take place in full view of the menaced future taxes. And even if the time were ever to come when the lands could sell on the level of this higher appraisal, the very fact that the appraisal was so high would so far reduce the increment of unearned value to be computed.

(6) And still further; there is always much land which is earning no present income and which has value only by its promise of coming later into earning power. Probably, in deed, all land values rest in some share upon the fact that the lands promise a sometime increase in rents. Market values upon suburban lots are notoriously merely these discounted prospects. As the looked-for day approaches these lands move forward in price. The nearer, therefore, these properties are to the time of their earning power, the greater grows the transfer fee to be paid to the state and the more marked, therefore, the relative advantage of holding the lands as against selling them. In truth, if the Liberal statesmen of England

were devising a scheme for guaranteeing the perpetuity of the landed gentry, nothing more effective than this could have been invented.

(7) But there remains still some comfort in the certainty that transfers by death must take place. And if present valuations are made low enough to allow of a later advance in value, something might seem likely to be realized in the way of future succession duties. But here another difficulty presents itself: when a death duty attaches, what will be the basis of this second valuation? And what the basis of the later valuations recurrently to be made? Why should values rise and furnish a differential upon which the one-fifth charge may attach? If there were probability of transfers *inter vivos*, these tax burdens must always stand as a vista of endless prospect, and must themselves be effective to depress each new appraisal. In this computation coming events cast their shadows before in a most disastrous fashion.

(8) But tho transfers *inter vivos* may mostly or entirely cease, death transfers must occur and upon these there will be fees to charge — if only an appraisal can be reached upon which to base the charge. But we have now to ask what at each successive appraisal is likely to be the effect of this infinite series of prospective death charges. With each imposed charge the number to come will be no whit the smaller; eternity suffers no subtraction. The duties on transfers *inter vivos* may perhaps fade out of the reckoning and the death duties remain the only duties to be feared; but if only these prospective death duties are sufficiently feared, they will so depress the present values as to cancel all death duties in the present.

Doubtless the analysis runs at this point into the paradoxical and the incredible. But the paradox is

rather of the problem than of the analysis. It is, indeed, beyond the reach of economic forecast to tell what will happen. In the domain of unreason, reason is likely to prove a halting guide: in this house of tax dementia only the insane are fully at home. But, inasmuch as the death dues must be distant and the rentals near, the market would doubtless somehow set some sort of a price upon the lands, if only these should ever be offered for sale. And, in the absence of an actual market, it is probable that appraisors could arrive at some method of determining what the lands would sell for, if they were ever offered. Anything more definite than this would be difficult to arrive at. But the share of the state is likely to be a small one.

The conclusions are then not far to seek or difficult to summarize. The truth is with the single-taxers in principle but not in method. All *ad valorem* taxation upon durable properties is bad in theory and defective or impossible in practice. The rents and not the capitalized values of the rents must be the object and the basis of the tax. The principle of the single-tax doctrine applies far more widely than merely to the unearned increment of land; but urban lands and corporate monopolies present the field in which the need of action is most urgent and the promise of results most alluring.

H. J. Davenport.

University of Missouri.

YEOMAN FARMING IN OXFORDSHIRE FROM THE SIXTEENTH CENTURY TO THE NINETEENTH

SUMMARY

Current views regarding the decline of yeoman farming in England, 294. — The situation in Oxfordshire from 1755–1832 as shown by the Land Tax returns, 298. — Comparison of the conditions of 1785 with those of the sixteenth century, 308. — Effect of the enclosures of 1755–1832 upon yeoman farming in Oxfordshire, 313. — Connection between earlier enclosures and yeoman farming, 320. — Antecedent conditions needing investigation, 323.

RECENT discussion about the decline of independent farming in England begins with the appearance of Rae's paper in 1883. In it he maintains "that up till the close of the eighteenth century no really serious breach had as yet been made in the ranks of the yeomanry, if indeed their strength had not positively risen." From 1815, however, "they have steadily declined, and the succeeding sixty years . . . have been sufficient to compass their general, and, except in one or two individual spots, their complete disappearance from the face of England." [1] The principal reason for this calamity Rae finds in the decline of prices and prosperity after the close of the French war. Men who had invested in land when the prices of provisions rose in the early years of the war, and others who had made improvements in their holdings, or had lived somewhat extravagantly during prosperous times, saw themselves unable to meet their mort-

[1] John Rae, Why have the Yeomanry Perished? (Contemp. Rev., Oct. 1883, pp. 551, 553).

gages in the subsequent period of depression and low prices. The passing of domestic industry and the loss of the carrying trade contributed to the same end. Rae's propositions have been recently elaborated by H. C. Taylor in a careful study of the printed material.[1]

In opposition to this "myth that the end of last century witnessed the heyday of the since vanished yeomanry," J. D. Rogers points out[2] that data used by Rae and Taylor refer in part to life-lessees and concludes that "farmer-owners . . . have not played a great part in our history, and have only been important when inextricably intermingled with the great body of tenant farmers or voters." Accepting and emphasizing the first part of this criticism, Hermann Levy attributes the decline of independent farming not to the low price of grain after 1813 but to its high price from 1760 to 1813. The small farmer, then producing live stock for the market rather than grain, derived no advantage from the advancing price of the latter, — was, indeed, at times forced to buy.[3] Levy's propositions have in turn been subjected to severe criticism by Hasbach. His discussion of the independent farmer in *Die englischen Landarbeiter* has been greatly extended in the revised English translation of that work and still more in an

[1] H. C. Taylor, The Decline of Landowning Farmers in England. (U. of Wisconsin, 1904.) Conclusions for the late seventeenth century are drawn from Gregory King's estimate of the strength of the various English classes; for the end of the eighteenth century from the County Reports to the Board of Agriculture and from Marshall's writings; for the nineteenth century from the evidence submitted to the parliamentary committee of 1833–1837 and from the reports made to the Royal Commission on Agriculture in 1895–1897.

[2] J. D. Rogers, article Yeomen, in Palgrave's Dict. Pol. Econ. (1899).

[3] Hermann Levy, Der Untergang kleinbäuerlicher Betriebe in England (Jahrbücher für Nationalökonomie und Statistik, 1903, vol. lxxxi, p. 145). Levy's description of the normal output of a peasant holding is derived from Arthur Young's account written in 1772 (p. 152). Levy assumes that the small farmer could not or would not change his habits when the wars made grain growing very profitable.

article in the Archiv für Sozialwissenschaft.[1] In the main he agrees with Rae, criticising chiefly the latter's interpretation of the term "yeoman" and his neglect of enclosures. For Hasbach the yeoman class includes large as well as small farmers. He believes that yeomen were still numerous at the close of the eighteenth century; Rae makes "a valuable point in ascribing their downfall to the period after 1815." As the more prosperous of them, however, passed into the ranks of the gentry from the sixteenth century onwards, the upper layer of the yeomanry vanished. The lower layer, differing little from cottagers, suffered like them from the enclosures of the eighteenth century.[2] Arnold Toynbee, somewhat earlier, had concluded that "the process of the disappearance [of the small freeholder] has been continuous from about 1700 to the present day [but] . . . it was not until about 1760 that the process of extinction became rapid."[3] Mantoux in his study of the Industrial Revolution thinks that the yeomanry was already doomed before 1780, when the new industry gave the final blow. "Son sort . . . n'a été qu'un épisode remarquable d'un drame plus vaste. . . ." This drama was the enclosure movement which reached its height in the second half of the eighteenth century when "le nombre des fermes . . . a beaucoup diminué."[4]

To a great extent the entire discussion has hinged upon the County Reports to the Board of Agriculture

[1] W. Hasbach, Die englischen Landarbeiter in den letzten hundert Jahren und die Einhegungen (Leipzig, 1894); English trans. by Ruth Kenyon, A History of the English Agricultural Labourer (London, 1908); Der Untergang des englischen Bauernstandes in neuer Beleuchtung (Archiv für Sozialwissenschaft, 1907).

[2] Engl. Agric. Labourer, pp. 71, 104–107; Untergang, pp. 3, 7, 28.

[3] A. Toynbee, Lectures on the Industrial Revolution of the Eighteenth Century in England (London, 1884, 4th ed., 1894), p. 61.

[4] P. Mantoux, La Revolution Industrielle (Paris, 1906), pp. 130,163, 164.

made at the close of the eighteenth century and upon the contemporary writings of William Marshall and Arthur Young. All have much to say about the surviving yeomanry.[1] Difficulties arise, however, from the vague numerical statements made and from the loose use of the term "yeoman." The only numerical pronouncement upon which all observers could agree was that yeomen had disappeared in Norfolk and had fallen off in Lancashire and Cheshire.[2] Elsewhere definiteness is attained in ascribing to the yeomanry one-third of the North Riding of Yorkshire, one-third of Berkshire, and one-fifth of the South Holland and one-half of the Fen districts of Lincolnshire. Shropshire is estimated to have three thousand freeholders and copyholders, or, as an earlier writer put it, "an infinite number."[1] Most often, however, the phrase is simply "many" or "a considerable number," an expression which we have no means of gauging. Still more troublesome is the term "yeoman." Originally perhaps limited to forty shilling freeholders, it had come in the eighteenth century to include at times copyholders and tenant farmers.[3] Since the distinction between tillers of freehold and copyhold land was at this time slight, their confusion need not trouble us. For English social and economic history, however, it is of considerable importance to separate lessees from occupying owners. Precisely because the County Reports confuse the two under the term yeoman, they are likely to be misleading and to endanger conclusions based upon them.

[1] Hasbach and Taylor give relevant extracts from the Reports, Engl. Agric. Labourer, p. 71, n., and Untergang, pp. 8–21.

[2] Hasbach, Untergang, p. 21.

[3] Rogers, op. cit., p. 684; Hasbach, Engl. Agric. Labourer, p. 71, n. (Westmorland, Derbys., Northants.)

In view of this varying connotation of the word yeoman, of the vagueness of the statements made about the persistence of the class, and of the somewhat general knowledge upon which such statements must have been based, it may not be amiss to try to get more accurate information regarding independent farming within a limited area. Such a study I have attempted for Oxfordshire,[1] and the results are here presented. The term yeoman is retained but is always used to designate an independent or landowning farmer (occupying owner). The data are based upon three groups of documents, hitherto little used, — assessments of the Land Tax, enclosure awards,[2] and manorial surveys.

Very recently Mr. A. H. Johnson has published his Ford Lectures for 1909 on the disappearance of the small landowner.[3] He, for the first time, has used the Land Tax assessments. Those utilized in the present paper are summarized in his last chapter and some from other counties are there added.[4] The

[1] Davis reported to the Board of Agriculture in 1794 regarding Oxons., "there are many proprietors of middling size, and many small proprietors, particularly in the open fields." This indefiniteness is typical.

[2] Gilbert Slater, The English Peasantry and the Enclosure of Common Fields (London, 1907), uses the enclosure acts. Where these can be trusted to refer to open fields (as they cannot in Norfolk) and where they state the area to be enclosed, they are of value. For accurate data regarding enclosures, it is necessary to go to the enclosure awards. Since it was optional with the parish whether a copy of the award be enrolled with one of the central courts or with the clerk of the peace for the county the awards are to be found either at the Record Office or at the county seat. Relatively few are in London, those for Leicestershire being most numerous. In the county towns, however, most of them can be had. A few are kept in their respective parishes and a few have perhaps disappeared. One is printed by J. C. Anderson, Plan and Award of the Commissioners Appointed to Enclose the Commons of Croydon [Surrey] (Croydon, 1889).

[3] A. H. Johnson, The Disappearance of the Small Landowner (Oxford, 1909).

[4] Ibid., pp. 132–136, 139–147, 151. I am indebted to Mr. Johnson for calling my attention to the Land Tax lists. At the time, he was having the assessments of selected parishes from five or six counties worked over. Those which he had for Oxfordshire he courteously put at my disposal for comparison with enclosure awards and manorial surveys with which I had been busy for some months. Since, however, trustworthy results demanded the record of *all* parishes in the county (the variation

conclusion which he reaches is "that by far the most serious period for the small owner was at the close of the seventeenth and during the first half of the eighteenth century . . . and that the changes since the middle of the eighteenth century have not been nearly so radical as they have been generally supposed to be."[1] This view is supported by the evidence about to be more specifically set forth.

Tho parochial records of the assessment of the Land Tax seem to have been carefully made from the time of the levy of ship money,[2] a complete and continuous series exists only from about 1785.[3] At this time, too, the returns, for Oxfordshire at least, incorporate an additional item of unusual value. In nearly all cases they begin to state not only the owner of the real property assessed but also its occupier. Thereby it becomes possible to discover which farmers are tilling their own land and which are tenants only. Occupying owners, *i. e.* independent yeomen farmers, stand in clear juxtaposition to non-occupying landlords. The purpose of this paper is to point out to what extent the former existed in Oxfordshire in 1785; to trace their fortunes from 1785 to 1832; to ascertain whether their numbers had decreased since

being great), and since I found that his transcriber had not altogether mastered the technicalities of the assessments, I went through the entire list of parishes. These fuller data of mine Mr. Johnson has accepted in place of his own for Oxfordshire. The Gloucestershire matter he has also adopted. I cannot too heartily express my gratitude for the kindness shown me by him and by J. M. Davenport, Esq., Clerk of the Peace for Oxons.

[1] Ibid., p. 147.

[2] For the parish of North Leigh, Oxons., there are returns for the years 1634–1642. After a break of sixty years the series becomes full during the early eighteenth century, but another gap of some fifty years intervenes before 1785. For this parish, as well as for many others in Oxfordshire, returns for the years 1760 and 1761 survive.

[3] In a few counties the series begins a little before 1785, in many it is not of value until later. Cf. Johnson, p. 129, n.

the sixteenth century; to note the effect upon them of such enclosures as occurred between 1785 and 1832; and, lastly, to inquire how far enclosures of an earlier period should be called a cause of their disappearance.

In the use of the Land Tax returns, comparisons are the easier, since the rate of four shillings the pound remained unchanged from 1775 to 1798, and in the latter year Pitt made it unchangeable.[1] Certain limitations and sources of possible error, however, have to be kept in mind. In the first place boroughs and market towns of any size have to be excluded, the assessment there relating largely to houses, shops, and inns.[2] In a few cases lessees for long terms of years are substituted for owners.[3] Often a careless use of the term or sign "ditto" causes confusion, which can be cleared up only by examining the writer's usage and comparing the returns for successive years.[4] Occasionally the distinction between owners and occupiers is not noted until some years after 1785; and again, as certain owners begin to redeem their assessment after 1798,[5] the same discrimination is neglected relative to sums redeemed. Accuracy in the exact size of holdings cannot, of course, be attained.

[1] S. Dowell, A History of Taxation and Taxes in England (London, 1884), vol. iii, p. 101.

[2] Such in Oxfordshire are Bampton, Banbury, Bicester, Burford, Chipping Norton, Henley-on-Thames, Oxford, Thame, Watlington, Witney. On the map they are colored black.

[3] Iffley, Piddington, Warpsgrove.

[4] The form is e. g.

Owner.	*Occupier.*
John Smith	Wm. Howe
James Ward	Ditto.

"Ditto" or "the same" would naturally refer to Wm. Howe but almost as often does refer to James Ward.

[5] This was permitted by Pitt at the time when he fixed the rate at four shillings to the pound. Dowell, loc. cit.

The returns, concerned only with pounds and shillings, show rather the relative value of estates in each parish. A comparison with contemporary enclosure awards, however, shows the assessment to have been at the rate of from one shilling and sixpence to two shillings per acre.[1] Small assessments present a considerable difficulty. Later returns[2] show that cottages and houses paid from one to five shillings, while some paid more. The line between landless cottagers and cottagers having an acre or two of land is so vacillating that it must be arbitrarily fixed. In the present study only occupying owners who pay six shillings or more are considered. Cottagers paying less, who *may* have had an acre or two of land, will be pretty well counterbalanced by the unavoidable inclusion of some landless dwellings which pay six shillings or more. Another troublesome entry is the home farm of the country squire. Often it is so large an item in the parish that to treat it as a yeoman's farm would give misleading results. Hence another arbitrary line has been drawn at twenty pounds, representing about three hundred acres. Any one paying more than this, even tho an occupying owner, is excluded from the group presently to be considered.[3] Similarly excluded is the assessment of tithes, tho owner

[1] So Blackthorn, North and South Bloxham, Great and Little Bourton, Deddington. This implies that land was worth ten shillings or less per acre, as may well have been the case in the unenclosed townships. Probably the tax per acre was higher in the enclosed parishes.

[2] Only comparatively few returns and these dating from 1825–1832 specify the nature of the property assessed.

[3] Such exclusions are made for the home estates of the large landowners of the county — Blenheim (Duke of Marlborough), Kirtlington (Sir Henry Dashwood), Shirburn (Earl of Macclesfield), Middleton Stony (Earl of Jersey), Nuneham Courtenay (Earl Harcourt), Sydenham (Viscount Wenman), and for the home estates of substantial country gentlemen who often occupy only a part of them — North Aston, Aston Rowant, Easington, Little Haseley, Harpeden, Holton, Kencott, Shelswell, Shiplake, Shipton under Wychwood, Shotover, Waterperry, Waterstock, Weston on the Green, Wood Eaton, Checkendon, Nettlebed, Swincombe.

and occupier naturally appear as the same person. Again, when certain rates due from woodland are charged against a so-called occupying owner, usually a nobleman or a gentleman, they are not, when discoverable, admitted among the holdings of yeoman farmers. Lastly, estates which for the moment are in the hands of the owner in default of a tenant are classed as landlords' estates. In short, the term occupying owner or yeoman farmer is here used to designate only those who paid in 1785 an annual tax of from six shillings to twenty pounds, representing estates of from about one acre to about three hundred acres.[1] Consideration is first given to the size and distribution of this class, as the most salient feature in the Oxfordshire returns of 1785.

The results of an examination of the assessments[2] in the several townships are summarized in the table on page 302. Townships are grouped according to the percentage of the total quota paid in each by occupying owners, and the groups for convenience are designated A, B, C, D, E.[3]

From this summary it appears that only nine per cent. of the county's rural real estate was in the hands of the independent farmer in 1785. But it also appears that the five groups fall into two well-marked divisions. In groups C, D, and E, comprising about two-thirds of the townships,[4] there are only 343

[1] Since few or none of the gentry would be found tilling their own farms of this size, or at least not be distinguished as "Gent.," the use of the term yeoman as the equivalent of occupying owner seems permissible.

[2] They are in the shirehall at Oxford.

[3] The list is complete for the rural townships of the county except that I have missed Wheatley and Caversfield and have omitted the three townships in which property was given under the name of the lessee (cf. p. 299, n. 3).

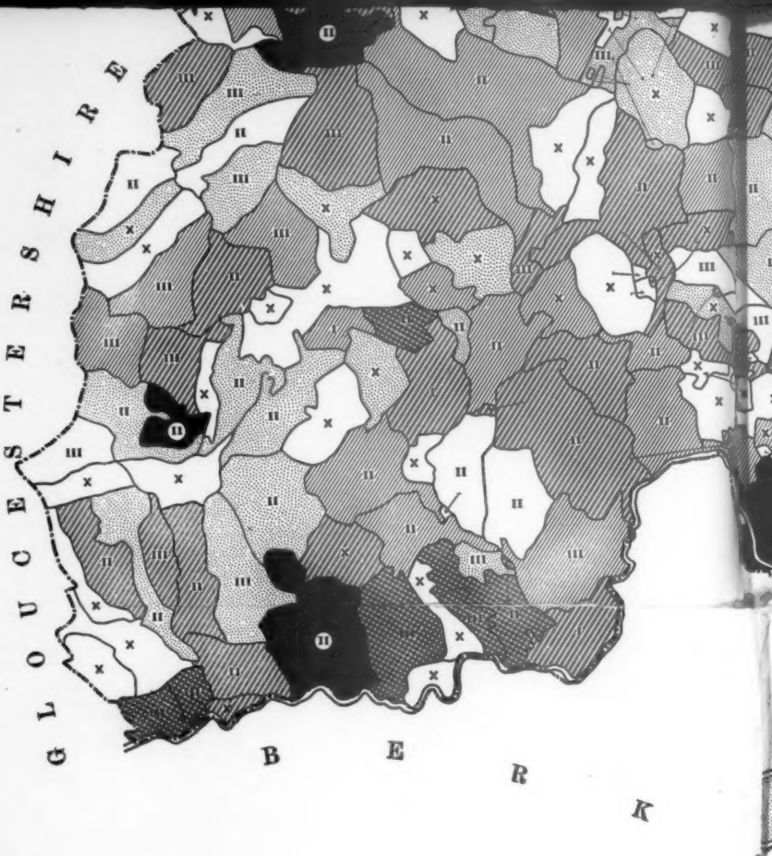
[4] 194 out of 296. Since the townships in group E are somewhat smaller than those of the other groups, the assessment of the three groups is 62% of the total assessment.

	Of the township quota occupying owners pay in 1785	Number of town-ships	Total quotas of the townships	Amount	Percent	Number of occu-pying owners	Number of townships in which				Number of town-ships unenclosed in 1755
				paid by occupying owners			$\frac{3}{4}$ of the real property is owned by one man	$\frac{3}{4}$ of the rea property is owned by 2–3 men	$\frac{1}{2}$ of the real property is owned by 2–3 men	property is much sub-divided	
Group A	More than 20%	48	£ 5560 s. 7	£ 1525 s. 7	27.4	591	0	0	8	40	48
Group B	From 10–20%	54	6500 7	886 15	13.6	393	1	6	33	14	41
Group C	From 5–10%	36	3933 2	268 6	6.8	173	2	9	18	7	26
Group D	Less than 5%	68	7798 11	183 8	2.4	175	17	29	16	6	35
Group E	Nothing (No occupying owners)	90	7833 0	0	0	0	64[1]	26	0	0	19
Total		296	31,625 7	2863 16	9.05	1332	84	70	75	67	169

[1] Of the 64, 20 are owned each by one man.


WARWICKSHIRE


NORTHAMPTONSHIRE
BUCKINGHAMSHIRE



Towns.

Townships in which in 1785 occupying-owners pay more than 20 % of the lan t

" " " " " " " " 10-20 % of the land tax . . .

" " " " " " " " 5-10 % " " " " . .

" " " " " " " " 0-5 % " " " " . .

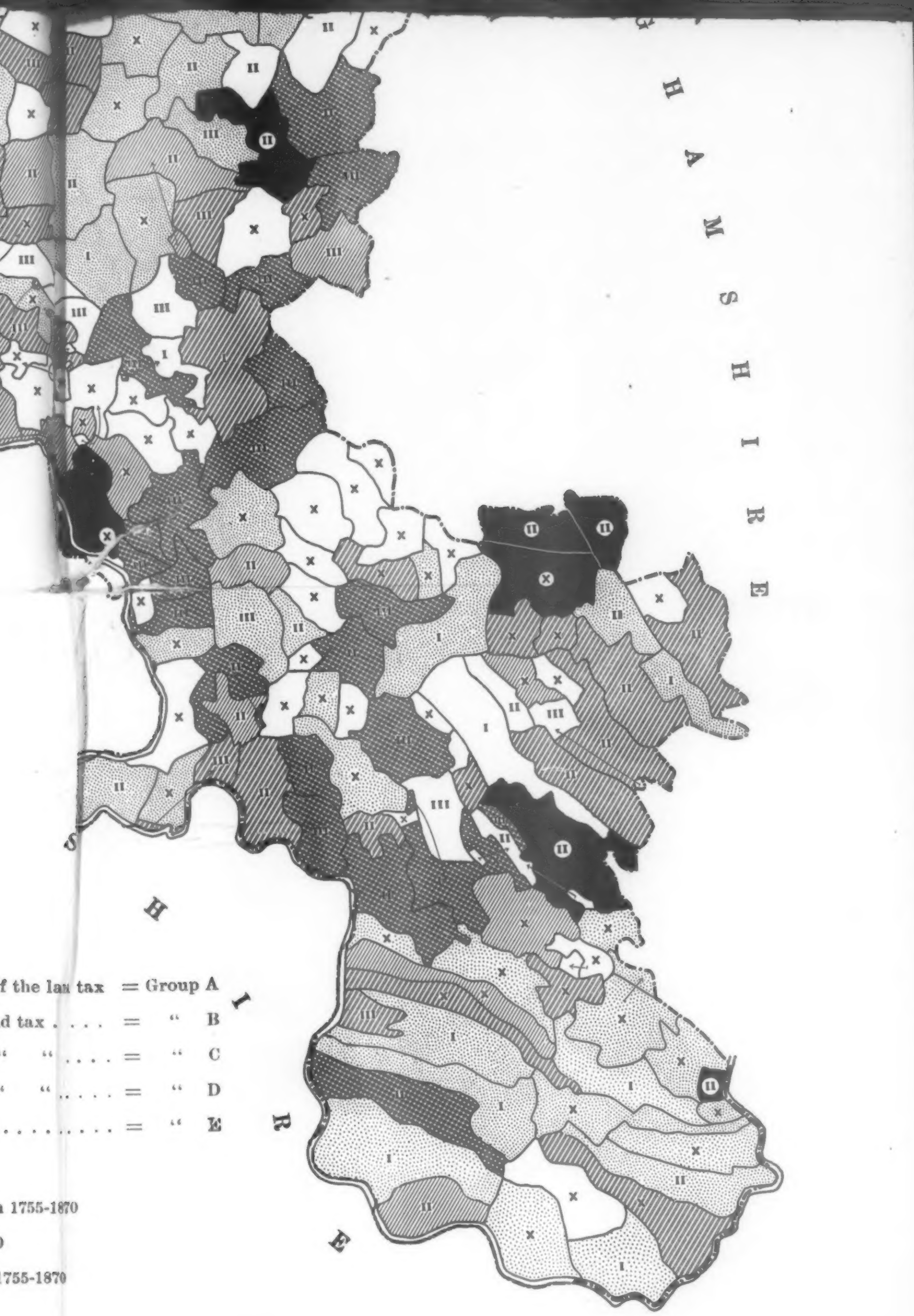
" " " " " there are no occupying-owners . . . .

III Townships in which more than ½ of the arable was enclosed between 1755-1870

II " " " ¼-½ of the arable was enclosed between 1755-1870

I " " " less than ¼ of the arable was enclosed between 1755-1870

X " enclosed before 1755



H A M S H I R E
S H I R E
f the lax tax = Group A
d tax . . . . = " B
" " . . . . = " C
" " . . . . = " D
. . . . = " E
a 1755-1870
1755-1870

occupying owners or less than two per township. They pay but 2.3% of the tax and presumably own only this percentage of the land. The remaining 97.7% is to be attributed to the non-occupying owner, to the landlord. In the other division, formed of groups A and B and comprising 102 townships, the occupying owner pays 20% of the tax and is to this extent a substantial factor in the community. We should not be far wrong in picturing two-thirds of rural Oxfordshire in 1785 as given over almost entirely to the landlord, while the other third has one-fifth of its population yeoman farmers.

The location of each of the five groups is shown on the accompanying map. It will be remembered that Oxfordshire rises in the northwest into the Cotswolds Hills and in the southeast into the Chilterns. The intervening surface comprises the low-lying valleys of the Thames, the Cherwell, and the Thame. A cross-section of the county from northwest to southeast would thus have the appearance of the profile of a saddle, with Oxford at the center. In the Chiltern region there are fewest yeoman townships. These parishes were brought under cultivation largely from the forest state, as becomes clear from the position and extent of their open fields.[1] The more fertile and more favorably situated parts of the river valleys also are in landlord hands.[2] In three spots only are independent farmers numerous, and these three are the most retired in the county.

[1] Their open fields, small in extent, lie in the Thames valley near the villages, in such enclosure maps as those of South Stoke, Caversham, Checkendon, Ipsden, Lewknor, Rotherfield Grays, Shirburn, Watlington, Whitchurch. These greatly elongated Chiltern parishes, extending from the river to the hill-tops, are excellent illustrations of Meitzen's Waldhufen. Cf. A. Meitzen, Siedelung und Agrarwesen der Westgermanen und Ostgermanen, der Kelten, Römer, Finnen und Slawen (Berlin, 1895), vol. i, pp. 43, 50.

[2] Compare William Marshall, Review and Abstract of the County Reports to the Board of Agriculture (York, 1818), vol. iv., p. 454.

One is the triangle formed with the northern line of the Chilterns as its base and the two highways from Oxford to London as its sides. It is a lonely plain, in places not very fertile,[1] still untraversed by a railway and in marked contrast with the attractive southern slopes of the same hills. The open fields of this region were among the last in the county to be enclosed. A second isolated spot is that about Otmoor, some distance removed from the Oxford-Bicester highway. But the largest of the three districts is the northern end of the county, rising from Banbury westward to the spurs of the Cotswolds. It is the divide between the valleys of the Thames, the Severn, and the Ouse, — the very heart of England. Before the days of canals and railways, its communication with the outer world must have been slow if not difficult. Yet the soil is the best in the county, a much-praised red loam.[2] Before the Civil War the region was a Puritan stronghold,[3] while to-day certain parishes are peopled largely by Quakers. Perhaps these characteristics have made for the vigor of yeoman farming.

To this survey of the status of the independent farmer in 1785, a glance at his fate for the next two generations is the natural sequence. It is the period of the Napoleonic wars and their aftermath. Tho the year 1832 is a political rather than an economic landmark, it is here chosen, since at that date the reaction from the war period had had time to make itself felt. Returns for 1804 show the state of affairs during the crisis. The number of occupying owners and their assessment at each of the three dates is indicated in the following table.

[1] Ibid., p. 448. [2] Ibid., p. 461.

[3] S. R. Gardiner, History of England from 1603–1642 (London, 1896), vol. viii, p. 93.

	1785		1804		1832	
	Land tax paid by occupying owners	Number of occupying owners	Land tax paid by occupying owners	Number of occupying owners	Land tax paid by occupying owners	Number of occupying owners
	£ s.		£ s.		£ s.	
Group A	1525 7	591	1752 11	646	1672 7	553
Group B	886 15	393	1148 15	499	1176 4	387
Group C	268 6	173	318 16	188	381 2	156
Group D	183 8	175	298 14	185	427 4	146
Group E	0	0	60 16	20	95 3	20
Total	2863 16	1322	3579 12	1538	3752 0	1262

While in 1785 occupying owners paid 9.05% of the total assessment of the county, their contribution in 1804 had become 11.3% and in 1832, 11.9%. A very marked increase appears in the amount of land cultivated by owners during the early years of the French wars; and this is true for each group of townships. The total amount even continued to increase until 1832, though too much should not be made of this. The increase between 1804 and 1832 is largely in group D, while the more important group A shows a slight decrease. It is perhaps safest to think of the amount as remaining nearly stationary during these years.

The situation is somewhat different when we turn from the amount of land held by occupying owners to the number of the latter. From 1785 to 1804 the tendency is as before. The total increases from 1322 to 1538, each group showing an advance. From 1804 to 1832, however, the total drops to 1262, a figure even smaller than that for 1785. Hence the general conclusion for the county must be that during the first nineteen years of our period there was a marked increase both in the number of occupying owners and in their holdings, but that during the last twenty-eight

years the occupying owners decreased in number tho the area tilled by them did not.

The interpretation of these facts is, of course, that there was a return to the soil attendant upon the higher price of food products during the French wars. Men bought land and tilled it. In the period of comparative agricultural depression which followed, this land was sold again, *but not to the landlord.* It came into the hands of the more stable of the independent farmers, who thus increased their holdings. The period made for the prosperity of this class, if not for its numerical increase. It was not a time of the growth of large estates at the expense of the occupying owner. The latter, once getting control of the land, did not relinquish it, unless to a fellow occupier.[1]

Large estates did develop in several places but almost always through acquisitions made from other non-occupying owners. The list subjoined indicates those townships in the county in which the largest estate shows increased assessment between 1785 and 1832.[2] In all other townships the largest estate remained unchanged or declined in value. Tho these large estates increased their tax to the extent of £290, not more than £40 of this could have come from occupied estates purchased from yeomen.[3]

[1] The case of Sibford Ferris and Sibford Gower illustrates the eagerness with which the yeoman bought and kept land where he could. The tale of what happened is yet current among the substantial farmers of these townships. Late in the eighteenth century the largest landowners of the parish were Baroness Wenman and Thos. Walford Esq., a lawyer of Banbury. The finances of both got into a sorry condition. Borrowing more and more heavily of their tenants, they ended by turning over to the latter bit by bit their estates. The occupying owners who in 1786 paid £34 out of a total parish assessment of £118 came to pay £53 in 1804 and £70 in 1832. Their number meanwhile had varied only from 26 to 24 to 28. Something perhaps should be allowed for the fact that this is a Quaker parish; but many other parishes would tell a similar story.

[2] For townships beginning with B, I have not the data.

[3] One occupying owner in Heath, taxed at £4, and one in Great Tew, taxed at £6, sold to the large estate (but forty-five and twenty-six years respectively after

For an accurate conception as to whether the tenacity of the yeoman has continued from 1832 to the present, an examination of the land tax returns at intervals during the period would be essential. This I have not been able to make. If a parliamentary report of 1896 may be trusted,[1] the amount of land then in farms of from 1–300 acres, tilled by their owners,

enclosure, cf. p. 316, n. 1). Possibly three or four small estates in Taynton, together taxed at £3, may have passed to the large landlord (for the most part long before enclosure). Perhaps the properties which disappeared in Wendlebury (taxed at £10) and in Horton cum Studley (taxed at £17) at about the time of enclosure (cf. n. 1, p. 315) had a similar fate. Except in these five parishes the large estate grew entirely at the expense of non-occupying owners. In four cases — Fritwell, Lower Heyford, Horton, and Kidlington — this growth happened just before or at the time of enclosure.

The list is as follows: —

Township	Township quota	Assessment of the largest estate in		
		1785	1804	1832
	£	£	£	£
Aston, North	215	121	145	166
Aston Rowant	159	63	63	102
Ascott under Wychwood	114	73	85	85
Asthall and Asthalleigh	116	22	22	37
Aston and Cote	200	40	62	90
Crowmarsh Battle	66	53	53	62
Crowell	74	14	14	21
Enstone	179	35	36	42
Filkins	77	15	17	26
Fritwell	98	34	[34]	43
Little Haseley	91	50	52	81
Handborough	137	53	65	67
Heath	38	11	20	24
Lower Heyford	75	10	21	21
Horsepath	85	10	17	33
Kidlington	180	18	44	45
Lineham	140	113	127	127
Neithrop	404	100	123	122
Shorthampton	47	29	41	41
South Leigh	167	135	141	164
Spelsbury	89	75	81	84
Horton cum Studley	110	9	10	44
Swinbrook	57	29	36	51
Great Tew	208	124	208	208
Taynton	92	62	72	76
Wendlebury	86	21	48	39
		1319	1637	1901

[1] Number and Size of Agricultural Holdings in Great Britain in 1895. A Report to the Board of Agriculture. Cd. 8243, 1896. Total area of the county 415,616 acres. Area of farms of 1–300 acres owned = 34,789 acres. Area of farms of 1–500 acres owned = 53,956 acres.

was only 8.37% of the county's area. If, however, farms of 300–500 acres be included, the per cent. rises to 12.9, almost exactly what it was in 1832.[1] At best, occupying owners seem not to have extended their holdings during three-fourths of the nineteenth century, and may have decreased them during that period.[2]

Turning now to the period before 1785 we face a problem of tendencies. The evidence is by no means so complete as one could wish, yet something we have. In the second half of the sixteenth century and during the opening years of the seventeenth it became the fashion to make surveys or field books of manors and parishes.[3] In their most complete form these surveys locate all open field strips and all enclosures within the parish, indicating the tenure by which each is held and its tenant, not neglecting a description of the demesne and sometimes including the customs of the manor. Tho often abridged, summarized, or incomplete, they are of great value for an intimate acquaintance with sixteenth century agrarian conditions. For our immediate purpose they furnish

[1] Perhaps such inclusion is not altogether unjustifiable in view of the fact that the £20 limit, adopted in the present investigation (cf. p. 300) probably included some farms of more than 300 acres. J. D. Rogers (art. Yeoman, in Dict. Pol. Econ.) declares that these returns of 1895 are "the only trustworthy general statistics since Domesday Book." According to them "fourteen per cent. of English farm lands were farmed by owners."

[2] Rae and Taylor (cf. pp. 293–4) agree in thinking that a marked decline in yeoman farming set in after 1814.

[3] W. J. Corbett, Elizabethan Village Surveys, Trans. Roy. Hist. Soc. N. S. vol. xi, p. 67, mentions eleven complete and nine incomplete surveys in the archives of King's College, Cambridge. All except two relate to Norfolk townships. Mr. Corbett gives considerable detail for four of them, and reconstructs a plan for one. F. G. Davenport, The Economic Development of a Norfolk Manor, 1086–1565 (Cambridge, 1906), Chap. I, uses to advantage the survey of Forncett, Norf. Miss E. M. Leonard, The Inclosure of Common Fields in the Seventeenth Century, Trans. Roy. Hist. Soc. N. S. (1905), vol. xix, p. 104, describes the 1570–1571 field book of Daventry and Drayton, Northants.

the number and holdings of freeholders and copyholders in twenty-six Oxfordshire townships.[1]

In about half of these cases the areas are in acres, in the other half in virgates, the virgate varying in Oxfordshire from 20 to 48 acres.[2] The chief difficulty in the comparison with eighteenth century data is that the sixteenth century surveys do not discriminate between occupying and non-occupying owners. The implication seems to be that at least nearly all copyholders are occupiers. In the table on page 310 only such freeholders and copyholders are included as have messuages and are not distinguished by the term "Gentleman." All holdings of less than two acres are excluded, as was necessarily done in the returns of 1785.[3] A few non-resident owners may have crept into this computation but the number cannot be large enough to vitiate seriously the following comparison with the later data.[4]

Both the number of yeoman farmers in the parishes in question and the area of their holdings seem to have decreased by about one-half between the end of the sixteenth century and the late eighteenth. Of the twenty-six parishes it happens that nine are among those which in 1785 had more than twenty per cent. of their areas in the hands of occupying owners.[5]

[1] P. R. O. Land Revenue, Misc. B 224, 189 (all except the following).
P. R. Q. Exch. Aug. Of. Misc. B 388 (Ewelme).
Bodl. Gough MSS. Oxon. 53 (Ensham).
W. B. Stapleton, Three Oxfordshire Parishes (Oxon. 1893), p. 263 (Yarnton).

[2] In the surveys of Caversham, Milton under Wychwood, and Cropredy the virgate = 20–24 acres. In the surveys of Bladon, Handborough, Shipton under Wychwood the virgate = 40–48 acres. At Minster Lovell the virgate = 32 acres.

[3] Cf. p. 300.

[4] In reducing to acres, virgates, the areas of which are not given, are estimated at 24 acres each and it is assumed that in 1785 an acre is assessed at one shilling and sixpence.

[5] I. e., in group A.

Date	Township	Area of demesne	Number of freeholders	Area of freeholds	Number of copyholders	Area of copyholds	In 1785: Number of occupying owners	In 1785: Estimated area occupied by owners	In 1785: Tax paid by occupying owners	In 1785: Total tax paid by township
				Acres		Acres Virg.		Acres	£ s.	£ s.
5 E. 6	Blackthorn	..	0	0	26	[816] 34	11	[562]	42 3	125 0
"	Brise Norton	7½ virg. @ £4	2	[@ 18s. 6d.]	6	[276] 11¼	4	[116]	8 15	176 16
"	Burton Magna & Parva	..	0	0	13	[636] 26¾	12	[188]	14 2	117 0
"	Caversham	1047A	1	[?]	48	1543	4	[137]	10 6	430 14
"	Charlton on Otmoor	[@ £4]	0	0	20	[348] 14½	6	[262]	19 12	89 3
"	Cropredy	413A	0	0	18	[504] 21	11	[333]	24 19	79 17
"	Garsington	[@ £4]	0	0	6	[192] 8	5	[40]	3 1	163 14
"	Hardwick and Brithampton	..	0	0	15	[384] 16	9	[274]	20 10	74 18
"	Hook Norton	100A + Park + Warren	0	0	23	[792] 33	28	[852]	64 4	230 14
"	Langley	164A + Park	2	15	5	130	0	0	0	24 14
"	Milton under Wychwood	..	4	214	7	412	6	[46]	3 10	86 14
"	Minster Lovell	528A	1	[60] 2½ virg.	14	[672] 28	0	0	0	89 9
"	Ramsden	..	3	62	4	200	8	[126]	9 9	38 13
"	Shipton under Wychwood	370	5	325	15	912	7	[222]	16 14	98 5
"	Spellsbury	3 virg. + certae terrae	0	0 [@ 20 d.]	28	[956] 39	3	[66]	4 18	89 5
"	Thrup	..	1		4	[180] 7½	1	[8]	0 12	51 18
4 Jas. I	Bensington	..	17	578	1	8	15	[522]	30 3	146 13
"	Bladon	111A	1	134	10	589	5	[76]	5 13	71 10
"	Combe Longa	323	6	42	18	369	4	[104]	7 15	93 4
6 Jas. I	Ewelme	317	3	17	18	370	14	[644]	48 8	183 14
4 Jas. I	Handborough	251	7	64	29	735	11	[338]	25 8	137 1
"	Stonesfield	{436}	5	54	16	220	5	[60]	4 11	27 10
"	Wootton		4	62	7	464	11	[226]	17 0	178 14
"	Warborough	..	11	200	13	452	25	[1086]	81 9	205 19
1615	Yarnton	384	..	..	11	640	0	0	0	172 14
1650	Ensham	2637	7	142	23	540	20	[460]	34 10	287 6
	Total		80	1909	398	13,340	225	6748		

Even so, five of these [1] show a distinct falling off in the number of freeholders and copyholders, together with a decrease of about one-third in the area of freeholds and copyholds. The other four seem not to have changed greatly.[2] The remaining eighteen townships, two-thirds of the total number, have lost more than one-half of their freeholds and copyholds, some being left with none at all. This proportion is not unlike what we have been led to expect from the conditions of 1785. At that time in one-third of the townships of the county the yeomanry constituted about twenty per cent. of the population; in the other two-thirds only a little more than two per cent. We seem now to have reason for adding that, in the latter group, *it had shrunk* to two per cent. Putting the matter in its most favorable light and allowing that one-third of the county lost few or none of its independent farmers during the two centuries, we must yet conclude that the remainder lost heavily.

Corroborative evidence is given by nine Gloucestershire townships for which we have data similar to those just adduced.[3] In them the average falling

[1] Blackthorn, Charlton-on-Otmoor, Cropredy, Hardwick and Brithampton, Ramsden.

[2] The favorable showing of these four in 1785 may result in each case from the inclusion of a rather large estate — larger, that is, than any counted in the earlier surveys.

Bensington — Largest estate counted in 4 Jas. I = 120 acres ; in 1785 [204 acres] assessed at £15 6*s*.

Ewelme — Largest estate counted in 6 Jas. I = 45 acres ; in 1785 [292 acres] assessed at £21 8*s*.

Hook Norton — Largest estate counted in 5 E. 6 = [84 acres] = 3½ virgates; in 1785 192 acres assessed at £14 7*s*.

Warborough — Largest estate counted in 4 Jas. I = 78 acres ; in 1785 [210 acres] assessed at £15 14*s*.

In the earlier survey of Warborough an estate of 185 acres belonging to a resident *gentleman* (hence omitted) may well correspond with the later large holding. Similarly in the Ewelme survey of 6 Jas. I two manors of 298 and 438 acres are omitted in the table.

[3] P. R. O. Rents. and Surveys, Portf. 2/46; Exch. K. R. Misc. B. 39; Rents. and Surveys, Ro., 228 (Combe and Symondshall).

Date	Township	Area of demesne	Number of freeholders	Area of freeholds	Number of copyholders	Area of copyholds	In 1785: Number of occupying owners	In 1785: Estimated area occupied by owners	In 1785: Tax paid by occupying owners	In 1785: Total tax paid by township
		Acres		Acres		Acres		Acres	£ s.	£ s.
1 E. 6	Froucetter	608	0	0	29	703	8	[80]	6 0	143 17
"	Horton	477	2	84	33	980	12	[506]	38 0	232 2
"	Weston Britt	161	0	0	7	346	1	[5]	0 8	63 0
6 E. 6	Bleddington	[?][1]	2	2 virg. [48A]	18	480	4	[150]	11 6	66 8
"	Charlton Abbots[2]. . . .	346	0	0	6	294	0	0	0	32 13
"	Marston Sicca	[ca. 380]	2	?	11	491	0	0	0	115 14
"	Welford[2]	[ca. 150]	4	[172]	15	403	8	[228]	17 2	186 17
5 E. 6	Longney	ca. 275	[?]	[72]	40	[ca. 900]	14	[330]	24 14	120 7
Temp. Eliz.	Combe and Symondshall .	436	4	[?]	8	416	2	[118]	8 18	72 12
			14	[376]	167	5013	49	[1417]		

[1] In the Bleddington survey there is no trace of demesne.

[2] Charlton Abbots seems to have been a smaller township in the eighteenth century than in the sixteenth; Welford seems to have been larger.

off of copyholders and copyhold acreage was upwards of two-thirds, somewhat greater than that east of the Cotswolds. Something, however, may be due to the uniformly early date of the surveys.

To explain the decline in yeoman farming which thus seems actually to have taken place, enclosure has received its share of attention.[1] Enclosures of the eighteenth and nineteenth centuries have been recently discussed by Hasbach, Mantoux, Slater, and Johnson. All cite and discuss contemporary reports and pamphlets, particularly the County Reports to the Board of Agriculture and the writings of William Marshall and Arthur Young. Hasbach thinks that enclosures were fatal for the smaller farmer ("lesser yeoman") and the cottager.[2] Mantoux, generalizing from a few instances, states that "presque partout, la clôture des *open fields* et la division des communaux ont eu pour suite la vente d'un grand nombre de propriétés."[3] Slater has chapters[4] on enclosure as affecting the poor and as resulting in depopulation, but in the latter does not clearly discriminate between owning occupiers and other classes of the rural population. Yet his introduction characterizes the enclosure policy of the eighteenth and nineteenth centuries as one directed toward "the uprooting of peasant proprietors."[5] Johnson cautiously concludes that "directly and indirectly enclosures tended to divorce the poor man from the soil," yet the larger yeoman was benefited, and in general, "enclosure should be looked upon

[1] T. E. Scrutton, Commons and Common Fields (Cambridge, 1887), first sketched the history of enclosure. He emphasised the evidence that eighteenth century enclosure did not on the whole diminish population, "though the effect of enclosure on the poor was more serious" (pp. 142–146).

[2] Engl. Agric. Labourer, pp. 107 ff.

[3] Revol. Industr., p. 163.

[4] Engl. Peasantry, x, xi.

[5] Ibid., p. vi.

as a necessary preliminary rather than the true cause of consolidation." [1] Rae and Taylor, discovering no marked decline in yeoman farming until after 1815, attribute the nineteenth century decadence to causes other than enclosure.[2]

In view of these diverse opinions it may be advisable to reconsider our Oxfordshire parishes in the light of their enclosure history. And the preceding order of inquiry may be retained. What was the effect of enclosure between 1785 and 1832, the years for which our data are most complete? And what may be inferred to have been its effect before 1785?

Between 1785 and 1832 forty-nine townships of the county were enclosed, with results which may be seen in the following schedule.

	Number of parishes enclosed	1785		1804		1832	
		Land tax paid by occupying owners	Number of occupying owners	Land tax paid by occupying owners	Number of occupying owners	Land tax paid by occupying owners	Number of occupying owners
		£ s.		£ s.		£ s.	
Group A	9	336 9	152	349 14	164	425 16	155
Group B	14	240 0	121	320 13	154	326 13	152
Group C	7	52 15	31	66 0	30	45 15	21
Group D	15	28 6	30	47 1	34	47 16	31
Group E	4	0 0	0	10 16	3	12 12	4
Total	49	657 10	333	794 4	385	859 12	363

Taken together, these townships seem to have had the same experience as the county at large. The amount of land occupied by the owners increases steadily during the entire period. The number of occupying owners increases until 1804, but declines somewhat before 1832. Turning from the totals to the figures for individual parishes, we find an occasional deviation from the rule just stated but seldom

Disap. of Small Landowner, pp. 99–106. [2] Cf. p. 293.

one of moment. Distinct loss of occupying owners or of their estates can be discerned in seven townships only. In these, eight independent farmers and occupied farms rated at £27 4*s*. disappear.[1] Elsewhere, if occupying owners seem to be lost, they have either disposed of their properties at a date distant from that of enclosure[2] or have leased them and thenceforth appear as landlords.[3] The disappearance of eight men and of some three hundred acres in the forty-nine townships which underwent enclosure during the half century in question is of slight consequence in comparison with the marked increase of yeoman farming apparent in the townships taken together.[4]

Before 1785 enclosure had been actively going on during thirty years, but unfortunately our data for determining its effects are by no means so complete or precise as the material just summarized. The only Oxfordshire Land Tax assessments before 1785 are those of a few parishes for the years 1760 and 1761. Nor do these distinguish between occupying and non-occupying owners, as do the later ones. Hence the sole information to be had from comparison of a land tax receipt of 1760 and one of 1785 is whether

[1] In Chadlington the occupying owner of a farm rated at nineteen shillings becomes merely an occupier during the year before the enclosure of 1825. In Lineham an occupied estate assessed at £4 15*s*. disappeared at about the time of the enclosure of 1788. An independent farmer of Kirtlington sold to the Earl of Jersey just before the enclosure of 1815 a farm taxed at £2 12*s*. Within three years before the enclosure of Stonesfield in 1804, occupied farms rated at £1 10*s*. and £1 4*s*. drop out. Just before its enclosure in 1801 Wendlebury lost two occupying owners who had paid £2 4*s*. and £5 10*s*., tho in compensation the enclosure created two smaller independent farmers. In North Bloxham the assessment of occupying owners changed from £42 10*s*. before the enclosure of 1802 to £40 3*s*. after it, but their number remained constant. In Horton cum Studley the assessment of occupying owners fell off £6 3*s*. in the five years before the enclosure of 1831 and their number decreased by one.

[2] In Arncott, Lewknor, North Newington, Chadlington, Islip.

[3] In Fritwell, Fulbrook, Shirburn, Taynton.

[4] In fifty-four townships of the county enclosure did not take place until after 1832, but since the later land tax assessments have not been examined, nothing can here be inferred about the effect of later enclosure upon independent farming.

there had been in the interval an engrossing of farms, *i. e.*, the absorption of small estates by large ones. Such information may be extended by an examination of enclosure awards, which likewise do not go the length of discriminating between occupying and non-occupying owners. At best we can merely argue that engrossing *may* have entailed the loss of some independent farmers, while its absence probably means the maintenance of the *status quo*.

Of the fifty-six Oxfordshire parishes enclosed from 1758 to 1785, the 1760 assessments remain for seven.[1]

[1] The assessments in the respective years are as follows, amounts under six shillings being omitted:

Bladon		Chesterton		Handborough		Heath		Sandford St. Martin		Great Tew	
1760	1785	1760	1785	1760	1785	1760	1785	1760	1785	1760	1785
£ s.	£ s.	£	£	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.
10 18	35 0[2]	26[3]	66[2]	11 8[1]	52 10[3]	1 16	10 10	4 1[4]	95 1[4]	150 0[6]	134 0[7]
11 0	11 9	10	19	4 18	24 16	5 16	4 10	31 24[5]	42 3[5]	3 15	76 0[8]
		10									
7 11	4 4	12	11	19 0	4 14	2 6	4 15	29 10	6 11	1 8	2 0
3 9	3 3	3	2	10 11	2 12	3 0	2 11	19 0	5 1	0 15	4 19
2 17	1 1	4	7	3 4	4 2	2 6	2 19	18 0	1 7	3 14	1 7
2 16	2 7	4	1	3 6	3 15	3 8	0 18	15 1		0 7	
2 14	4 4	2	1	2 8	1 19	2 9	0 13	9 13		6 5	
2 17	0 8	2	2	1 8	3 2	1 19	0 6	2 8		3 2	
2 14	0 6	3	2	1 12	1 12	0 19	10 0[1]	2 14		0 9	
2 1		2		1 10	6 2	1 16		1 4		4 8	
1 7		3		2 12	1 12	8 0[1]		7 12		0 18	
(8 0)[1]		5		1 16	4 15			6 16		5 12	
		4		3 8	1 11			2 3		1 3	
		2		2 14	2 3					4 18	
		3		1 2	2 3					7 4	
		1		1 4	8 0[1]					3 16	
		1		3 0						0 7	
				2 2						4 15	
				3 4						0 7	
				1 4						0 13	
				1 4						0 15	
				1 4							
				5 16							
				7 4							
				5 14							
				1 4							

[1] Excise. [2] Duke of Marlborough.
[3] The Duke has no interest. [4] Heywood. [5] Taylor.
[6] Esq. Keck. [7] G. Stratton, Esq. [8] T. Freeman, Esq.

In Handborough the enclosure award of 1773 shows that the Duke had already made his purchases. In Heath, too, engrossing preceded enclosure. In Sandford it followed the enclosure of 1768 as it did to some extent the enclosure of Great Tew in 1767. The awards for Bladon and Chesterton are not available.

One of these, Stanton Harcourt, shows no particular engrossing during the period. But the other seven do. Especially in Bladon, Chesterton, and Handborough, the Duke of Marlborough is found to have been vigorously making purchases, and in Chesterton his interest is new. In the other three townships the purchasing landlords are different persons, and the one at Heath has not bought extensively.

The meager information from the Land Tax records is somewhat extended by the evidence of the enclosure awards. These are available for forty-seven of the fifty-six[1] parishes. In some of them, allotments made in lieu of newly-purchased estates mention the recent purchases. In this way we discover pre-enclosure purchases in five parishes. In not more than two of them, however, is there any tendency toward forming large estates; and one of these two estates is acquired by the Duke of Marlborough at Black Bourton.[2] Again by comparing enclosure awards with the land tax assessments of 1785 we discover traces of post-enclosure consolidation in three other parishes.[3]

[1] For the other nine there are acts for enclosure (cf. Slater, Engl. Peasantry, p. 296), but no awards either at London or Oxford.

[2] In the very long Adderbury-Bodicote-Milton award of 1768, allotting 4310 acres, the Duke of Buccleugh purchases about 400 acres. Of this, 200 acres are bought from one man, but the remainder is bought from twenty-four different persons who sell parcels greater than two acres and from twelve others who sell parcels smaller than two acres. Very few of the names of the sellers again appear in the award. A few properties are those of persons lately deceased. It is clear that several small people sold small holdings. Yet in comparison with the total allotment and the very large number of substantial farms allotted to different persons (more than 100), these purchases of the Duke do not affect the character of the parish, which remains one of the most subdivided in the Banbury region. In Bicester Market End, Christopher Metcalf, already allotted in his own right 122 acres, purchases two estates of 70 acres and 72 acres. In Wardington, enclosed in 1762, four men, themselves yeoman farmers, purchase from eight others some 330 acres. In the Coggs enclosure of 1787 which allotted 1489 acres, Earl Harcourt, already owning most of the parish outside of the tithe interest, purchases 173 acres. In Black Bourton, at the time of the enclosure of 1770, the Duke of Marlborough had recently purchased estates of 27, 39, 38, and 1194 acres. By 1785 he had become sole owner, four copyhold estates amounting to 120 acres and one freehold of 98 acres having been meanwhile absorbed.

[3] In Westwell three allotments of 1777 containing 11, 14, and 48 acres have passed in 1785 to the Dean and Chapter of Christ Church who thereby become sole owners

Taken together there are fourteen parishes, out of the fifty-six enclosed between 1758 and 1785, which show traces of engrossing of estates either before or after enclosure. But of these cases, four are not significant,[1] two others not markedly so[2], while half of the remainder are directly connected with the Duke of Marlborough.[3] On the other hand, in the awards of thirty-three parishes there is no mention of estates purchased [4] nor is there any evidence of engrossing between the date of enclosure and 1785. What is especially noticeable is that in groups A and B the seventeen parishes [5] which underwent enclosure retained a large yeoman population and show no growth of large estates. We may well surmise that their experience was very like that of parishes enclosed after 1785. Fifteen of the seventeen lie in the northern region about Banbury,[6] the stronghold of the small farmer. In view of all this, our general conclusion regarding enclosure between 1755 and 1785 must be that in the majority of cases and especially in the north of the county, it was accompanied by no growth of large estates,[7] no consolidation after enclosure, probably not much before it, and little or

of the parish, apart from the tithe and glebe interest. In Great Rollright and Shutford there seem to have been in 1785 fewer estates by three or four than when the parishes were enclosed, but independent farmers where still numerous.

[1] Bicester, Wardington, Great Rollright, and Shutford.

[2] Heath, Adderbury.

[3] Bladon, Chesterton, Handborough, Black Bourton.

[4] This may at times be due to the brevity of phrase characteristic of many early awards.

[5] In group A — Blackthorn, Claydon, Cropredy, Epwell, Hook Norton, Over Norton, Hornton, Southrop, Sibford Gower.
In group B — Alkerton, Steeple Aston, Great and Little Bourton, Burcott, Dean, Filkins, Tadmarton, Wootton.

[6] Adderbury, Bodicote, Milton, and Wardington might well be added since in their awards engrossing is slight (cf., p. 317, n. 2), and the yeoman farm is much in evidence.

[7] But cf. p. 306, n. 3.

no disappearance of the independent farmer; but we must add that in certain parishes, especially those in the southwest of the county where the Duke of Marlborough had interests, some estates were bought up, a part of which *may* have come from independent farmers.

A final and difficult question is the connection between enclosure prior to 1760 and the disappearance of the independent farmer. It may be assumed that enclosure had been taking place for two and a half centuries. Professor Gay's researches have done much to establish the fact and to determine the continuity and the extent of the movement.[1] Miss Leonard's paper [2] adds some data for the seventeenth

[1] Inclosure of Common Fields in the Seventeenth Century. The evidence relates largely to Durham and Leicestershire. Miss Leonard infers "that the comparative rarity of the yeoman farmers and of small occupiers in inclosed parishes at the beginning of the nineteenth century seems tc point to inclosure as one of the chief causes of the change." (p. 120.)

[2] E. F. Gay, Zur Geschichte der Einhegungen; Doctor's Inaugural Dissertation, Berlin, 1902; a full account of the literature of the subject. — The Inquisitions of Depopulation in 1507 and the Domesday of Inclosures, Trans. Roy. Hist. Soc. N. S. vol. xiv, p. 232. A criticism of the methods and results of I. S. Leadham's Introduction to the Domesday of Inclosures (London, 1897). Mr. Leadham's reply is appended. — The Midland Revolt and the Inquisitions of Depopulation of 1607, Trans. Roy. Hist. Soc. N. S. vol. xviii, p. 195. — Inclosures in England in the Sixteenth Century, Quarterly Journal of Economics, vol. xvii, pp. 576–597. A summary of results obtained from a careful study of inquisitions and of cases in the courts.

The sixteenth century studies tend to show "that the specific inclosure movement of the fifteenth and sixteenth centuries, the depopulating inclosure of open fields with a view to the greater profit of grass farming, had not by any means the magnitude often ascribed to it . . . that, limited in amount, it was also circumscribed in area, being largely confined to the central districts of England." In the twenty-four counties from which there are returns, only 2.76% of the total area was affected. (Quarterly Journal of Economics, pp. 596, 586.) Professor Gay's views on the enclosures of the later seventeenth century have been misunderstood by Miss Leonard (op. cit., p. 102, n.) and by Mr. Johnson (op. cit., p. 45). He early pointed out (Zur Geschichte der Einhegungen, pp. 54 ff.) that Cunningham, Ashley, Cheyney, and Prothero were mistaken in supposing that during the seventeenth century enclosures had ceased. "Ein kurzer Ueberblick genügt um zu zeigen dass die Bewegung keineswegs aufgehört hatte"; and detailed references were given to contemporary literature. In the Quarterly Journal of Economics paper (p. 590), he repeated his conclusion that "the enclosure movement . . . reveals itself as one of comparatively small beginnings, gradually gaining force throughout the sixteenth century and continuing with probably little check throughout the seventeenth century until it was absorbed in the wider enclosure activity of the eighteenth century."

century. The year 1760, or at least 1755, marks the period at which a new method of enclosure becomes popular. From 1755 resort to private acts of parliament, occasional hitherto, supplies us, as has become evident, with a full series of acts and awards. Previously enclosure had gone on, as a rule, by private agreement or chancery decree or had been a piecemeal process unauthorized by legal formality.[1] For the moment we are interested in the one hundred and twenty-seven Oxfordshire townships which had become enclosed in one quiet way or another before 1755. On the map townships enclosed before and after that date are discriminated, and the proportion of a township enclosed by parliamentary act after 1755 is roughly indicated. In the schedule on page 302 the number of parliamentary enclosures in each group is given.

Obviously we have not data sufficient to show decisively whether enclosure before 1755 caused the disappearance of the yeoman. In most cases we do not know when or under what circumstances the parishes were enclosed or when the small holders dropped out. We have only the situation in 1785. Still conjectures can be wrung even from this. If enclosure was the *fundamental* cause of the disappearance of the yeoman, the parishes in which yeomen are fewest in 1785 should be enclosed, and those in which they are most numerous should be open. From this point of view examine the schedule. Group A exactly fulfils the logical demand. Its parishes have upwards of 20% of yeomen and are all in open field. Group B, however, with 10–20% of yeomen, has managed to get thirteen of its fifty-four parishes enclosed. At the other end of the scale groups D

[1] Scrutton, op. cit., pp. 130, 133.

and E, with practically no yeomen, have fifty-four of their hundred and fifty-eight parishes open. It begins to appear that the presence of yeomen does not delay enclosure nor their absence guarantee it.

Some other factor has to be considered, and the engrossing of estates suggests itself. A re-examination of the groups shows enclosure in far closer relation with this than with the disappearing yeoman. Of the enclosed parishes in group B, four were probably never in open field,[1] seven have three-fourths of their respective areas in the hands of two or three men,[2] and two have one-half of their areas similarly engrossed.[3] In group C, too, seven of the ten enclosed parishes show respectively more than one-half of their areas held by three owners.[4]

Just as in these two groups engrossing in certain parishes has been conducive to enclosure, so in group D the lack of it has caused delay. The continued existence of open fields in thirty-five townships of this group can scarcely be attributed to the independent farmer, since he owned on the average only two and one-half per cent. of the soil.[5] The failure to enclose is to be charged rather to a multiplicity of landlords. For in the land tax reports, the twenty-seven [6] townships which were enclosed after 1785

[1] Eye and Dunsden, Nettlebed, Stokenchurch, Lew.

[2] Ambrosden, Attington, Chilworth, Cuxham, Hensington, Radcot, Shirburn. These are the 1 and 6 of the schedule, p. 302.

[3] Tetsworth, Souldern.

[4] Godstow and Cutslow, Coombe, Finstock, Newnham Murrain, Shelswell, Swincombe, Wolvercott. The other three are Stoke Row (in the Chilterns and probably never open), Marston (a meadow parish near Oxford), and Wheatfield.

[5] Cf. schedule, p. 302.

[6] For the other eight only the awards are left and these do not well show antecedent conditions.

have, except in two or three instances,[1] many non-occupying owners. The evidence of the three groups thus seems to show that engrossing rather than the absence of occupying owners was the normal preliminary to enclosure before 1755.

Group E indicates whether enclosure always followed speedily upon engrossing. Here there are no small farmers and engrossing had gone far. In each of the ninety townships from one to three men own three-fourths of the land, yet nineteen are unenclosed in 1755 and twelve in 1785. Enclosure of five of the twelve is delayed even to the middle of the nineteenth century. Nor is this because in them there are many landlords.[2] In no parish are there more than five or six of any importance, aside from the glebe and tithe interest. Instances like these have at least two counterparts in group D.[3] Taken together they make clear that enclosure was sometimes delayed, not so much because there were many interests to harmonize as because landlords were indifferent. With their holdings probably not badly scattered, owners were not troubled by inconveniences to their tenants (which perhaps the latter did not feel) and did not care to incur the expense of parliamentary act and award. Such a situation exists to-day in

[1] Barford St. John and Bicester King's End, already consolidated, postponed enclosure like the following townships of group E. Tho Culham, Kirtlington, and Swinbrook had in 1785 only about four estates each, enclosure was delayed until these were further reduced in number.

[2] In South Leigh in 1785 there are only four landlords paying respectively £135, 29, 1, 1, yet enclosure is postponed until 1794. In Cottisford the four landlords of 1785 pay £23, 16, 6, 1, yet do not enclose until 1854. Brightwell Baldwin is entirely owned by Sir Wm. Stapleton and Wm. Lowndes Esq., but is enclosed only in 1802. At the latter date Wm. Lowndes Stone is sole owner aside from the rector's tithe interest, and the enclosure seems undertaken merely to settle the latter. Yet open field land is in question to the extent of nearly the entire township (1322 acres out of 1609). There is one instance in Oxfordshire of the legal enclosure of a parish already actually enclosed — the Goddington award and plan of 1816. The purpose is to set off tithe and glebe allotments. Such legal re-enclosure is common in Norfolk, but Oxfordshire awards nearly always relate to open fields.

[3] Cf. n. 1, above.

the parish of Westcote, Gloucestershire, just on the western border of Oxfordshire.

If the foregoing interpretation of later evidence be correct for the period before 1755, there seems ground for believing that the existence of small independent farmers did not always hinder enclosure and that their disappearance did not always facilitate it. Engrossing of small properties was the essential antecedent. If such chanced to be yeoman farms, engrossing involved the disappearance of the yeomen. But one must inquire what motives led to the engrossing of independent farms rather than construe as a cause of their disappearance what was often actually a result — sometimes long delayed. This paper does not attempt to explain why yeoman holdings vanished before 1755, but simply points out that the invoking of enclosures explains little. The actual order of events appears to be that for certain reasons and by certain means landlords first acquired estates, and then in the course of time got these accumulated properties enclosed.

Engrossing was not the only process antecedent to enclosure during the seventeenth and eighteenth centuries. Parallel with it, usually seen in the townships where ownership was getting to be the attribute of a few, but often appearing elsewhere, was the breakdown of the old field systems. These began to give way to complicated systems which allowed almost as elaborate a rotation of crops as was possible on enclosed lands. Great Tew in northwestern Oxfordshire made changes in 1759, devised a new rotation in 1761,[1] and taking the next natural step before the rotation had once run its course, undertook enclosure

[1] P. Vinogradoff, An Illustration of the Continuity of the Open Field System, Appendix. Q. J. E., vol. xxii, p. 76.

in 1767. The remarkable diversity of field systems in use in Oxfordshire in the late eighteenth century [1] marks a transition stage when an eagerness to use land to the best advantage had not yet achieved enclosure. The numerous enclosures of the Banbury region between 1760 and 1785, unattended for the most part by engrossing or the disappearance of the independent farmer, are to be attributed to the influence of these progressive ideas.[2]

Enclosure thus becomes a sign either that the estates of a township have been largely engrossed or that there is impatience with the trammels of the old field systems. Both conditions of course may coexist and hasten the end. Both go back to deeper causes, the working of which caused the independent farmer partly to disappear. Sometimes, to be sure, he disappeared because he stood in the way of the last stage of the process. In a township owned by relatively few men or anxious to get rid of the open field system, an obstinate yeoman or two may have objected to enclosure and may have been bought out or bullied out. This is perhaps the closest approach which seventeenth and eighteenth century enclosure makes to becoming a cause of the disappearance of the occupying owner. Such cases existed without doubt. We have found them between 1755 and 1832, but in small numbers, and then due largely to the activity of the Duke of Marlborough between 1760 and 1785. Most of the evidence, on the other hand,

[1] Marshall, vol. iv, p. 477.

[2] Ibid., p. 476. The Secretary to the Board of Agriculture writes enthusiastically in 1809, "They [the Oxfordshire farmers] are now in a period of great change in their ideas, knowledge, practice, and other circumstances. Enclosing to a greater proportional amount than in almost any other county in the kingdom has changed the men as much as it has improved the country; [and on p. 467] if you go into Banbury market next Thursday, you may distinguish the farmers from enclosures from those from open fields; quite a different sort of men. . . ."

seems to indicate that enclosure was the registering of a *fait accompli* and was dependent upon the engrossing of estates and the break-down of old field systems.

To determine what underlay these last two phenomena and what was their relation to the disappearance of the yeoman farmer there is need of further investigation. Toynbee and Johnson have given suggestions.[1] Permanent conclusions must probably rest on the rentals, the surveys, the rolls of manorial and central courts during the period in question. The present paper has merely attempted to show for one county what the facts are. For this limited area they seem scarcely to be what most current writing has maintained. There was in Oxfordshire no decline in the area of yeoman farms between 1814 and 1832, as Rae and Taylor would lead us to think, and scarcely any falling off in the number of yeoman farmers from 1785 to 1832. The temporary increase in the ranks of the latter during the period of the French war does not well accord with Levy's contention that misfortune came to them with the advancing price of grain. Enclosure after 1785 did not fatally affect yeomen with holdings of from two acres to three hundred acres, and did not to any great extent during the preceding thirty years. In this respect, the views of Miss Leonard, Hasbach, Mantoux, and Slater do not receive confirmation. Toynbee, in saying that the disappearance of small freeholders has been continuous was better advised than when he added, "it was not until about 1760 that the process of extinction became rapid." Mr. Johnson, alone, reasoning from the Land Tax returns

[1] Toynbee, op. cit., p. 68. Johnson, op. cit., pp. 61–70.

and other data, reaches conclusions about the period when the yeomanry disappeared more in accord with those which seem to hold for Oxfordshire. Summarily stated, these are that the marked decline in yeoman farming took place between the sixteenth century and 1760 rather than after that period; that enclosure of the open fields after 1760 was not disastrous to occupying owners who had more than one acre of land; and that earlier enclosure should probably, in the main, be looked upon not as a cause but as a result of the disappearance of small farms.

H. L. Gray.

Harvard University.

THE INSURANCE OF BANK DEPOSITS IN THE WEST. II. (CONCLUSION)

OKLAHOMA (*Continued*)

SUMMARY

Oklahoma (continued). Failure of Columbia Bank and Trust Co. Payment of depositors begun at once, 330. — Outcome of the liquidation, 332. — Other failures, 334. — How far deposit insurance caused the failure, 336. — How far politics entered, 338. — A serious question: the size of single risks, 340. — Desirability of postponing payment until after liquidation, 341. — Few conversions into national banks, 342. — Conclusion as to Oklahoma, 343. — *Kansas.* Unsuccessful bill of 1898, 344. — Act of 1909, 346. — National banks, not being allowed to participate, form a Guaranty Company, 349. — Legal complications: the constitutionality of the act questioned, 352. — Working of the act thus far, 355. — *Nebraska.* Act of 1909, 356. — Held unconstitutional by Circuit Court, and not in effect pending appeal, 357. — *South Dakota.* Abortive act of 1909, 359. — *Texas.* Act of 1909. Nominal option between guaranty and an indemnity bond, 362. — Other provisions, 363. — Guaranty plan generally followed, 365. — General regulation of banking, 366. — Effects of the act, 366. — *Colorado.* Unique and interesting bill, but no law enacted, 368. — *Missouri.* Attempts at legislation failed, 369.

Deposit Insurance by Private Corporations, 370. — Proposals and possibilities, 371, 372.

General arguments and conclusions, 373. — Chief purposes of deposit insurance, 373–376. — Objections: unnecessary? Failures, tho rare, are bad, 376. — Depositors cannot pick good banks, 377. — Would insurance bring impossible conditions? 378. — Undue liberality in interest on deposits? 379. — Fictitious loans? 380. — Undue expansion? 381. — No surplus accumulated? 382. — Unfair in taxing good banks? 383. — Premiums inadequate? 383. — State-administered *vs.* private insurance, 386. — The immediate future and the ultimate possibilities, 388.

The compulsory insurance of deposits in Oklahoma state banks began in February, 1908. Within a year and a half the state banks had grown marvelously in number and deposits, while the national banks had decreased in number and remained stationary in

deposits. Then the Columbia Bank and Trust Company failed, with the largest deposits in Oklahoma, and this was a state bank.

Only a faint idea can here be given of the recriminations that have ensued. The national banks have been unfairly charged with having allowed the Columbia Bank and Trust Company to fail when they might have saved it, and with gloating over the failure afterward. On the other hand, opponents of the deposit insurance system have accused state officials of indiscreet relations with the Columbia Bank and Trust Company, have accused the State Banking Board of favoritism in the liquidation, and Governor Haskell with preventing investigation of the causes of failure.[1] Republicans have bitterly assailed the Democratic state administration over the failure and liquidation, and the administration has fervidly answered. The Governor and the Attorney General have quarreled. Litigation has been instituted by some depositors and surety companies. Just what caused the failure has not been told, but the course of events, in so far as they bear upon deposit insurance, is now reasonably clear.

The Columbia Bank and Trust Company was organized in 1905, and its career for several years was uneventful. In October, 1908, control was obtained by W. L. Norton. Mr. Norton had been an active investor in the gas and oil field of eastern Oklahoma and was supposed to be a wealthy man. Besides his oil and gas investments, and the Columbia Bank and Trust Company, he was heavily interested in many other Oklahoma banks, both state and national.

The capital of the Columbia Bank and Trust Company was $200,000. Its statement of September

[1] For the Governor's explanation see p. 339, *infra*.

23, 1908, showed deposits of $365,000, of which $110,000 was due to banks. The remarkable growth of its deposits thereafter is shown by the following figures: —

Deposits,	September 23, 1908	$365,686.01
"	November 27, 1908	602,529.90
"	February 5, 1909	1,111,805.64
"	April 28, 1909	1,721,039.70
"	June 23, 1909	2,345,100.33
"	September 1, 1909	2,806,008.61

The deposits of September 1, 1909, were classified as

Individual deposits	$1,321,929.31
State Treasurer's Deposit	172,383.13
Bank Deposits	1,311,696.17

In less than a year, therefore, the individual deposits had increased from $255,000 to $1,300,000, and the bank deposits from $110,000 to $1,300,000; a growth astonishing even in Oklahoma.

At this time opinions about Mr. Norton differed widely. Some bankers considered him a successful business man, worth a million dollars. Others regarded him as perhaps successful, but a plunger, and had nothing to do with his banks.

The closing of the bank was imminent some days before it occurred. A large amount of currency was rushed to the other Oklahoma City banks to save the situation if alarm should spread. The Oklahoma City Clearing House banks offered to lend $250,000 or more in cash, if good security could be given them, and if such assistance would save the bank. This offer was declined by the Bank Commissioner, who took charge of the bank on the night of September 28, 1909, and opened the doors next morning to pay off the depositors as provided by the guaranty law.

Several hundred people assembled, but there was no such excitement as would attend the closing of so large a bank whose deposits were not insured. The Commissioner began to pay depositors at once, and announced that all would beyond question be paid in full. This was a good deal to say, as there was at the time only about $400,000 in the guaranty fund, but the fact that payments were actually going on reassured most depositors.

The liabilities to be liquidated September 28, 1909, were: —

Individual Deposits	$1,165,747.42
Savings Deposits	75,061.36
Certificates of Deposit	353,184.86
Bank Deposits	1,293,385.73
Cashier's Checks	10,090.96
Certified Checks	3,577.60
Total	$2,901,047.93 [1]

The amount of cash and sight exchange is not given in the Commissioner's statement. On September 1, 1909, it was shown as $1,134,981.95. Whatever it was September 28, it was far too little to pay the depositors, even with the whole of the guaranty fund added. The annual assessment for the fund of one-quarter of one per cent. of deposits had recently been collected.

It will be remembered that, under the Oklahoma law, emergency assessments may be made any year up to two per cent. of deposits. The emergency assessment in this case was, however, fixed at three-quarters of one per cent. of the average deposits of 1908. Under this assessment, the state banks of

[1] Statement of Bank Commissioner Young, October 30, 1909, to State Banking Board; Oklahoma Banker, vol. i, p. 136.

Oklahoma had to pay $248,000.[1] Many state bankers were incensed at the failure and at the relations that were said to have existed between state officials and the bank. There was talk of resisting the assessment, but no banker cared to refuse payment at the risk of having his bank closed. Governor Haskell says, indeed, that only eleven protests were received.[2] That there was discontent is shown by the fact that the Eastern Group of the State Bankers' Section of the Oklahoma Bankers' Association met at Tulsa about a month after the failure of the Columbia Bank and Trust Company, and adopted resolutions urging changes in the guaranty law.[3]

We have seen that the Bank Commissioner, acting for the State Banking Board, began to pay depositors on the morning after taking charge. Yet the resources of the Columbia Bank and Trust Company and of the guaranty fund together were not nearly enough to go around; and he could not possibly have known how much the loss on the loans and investments of the bank would prove to be. Such procedure can be justified only by success, if at all.

It was decided to pay the individual depositors first, but even they could not all be paid at once, and charges of discrimination were inevitable. The small or moderate accounts were, in the main, paid promptly.

[1] Bank Deposit Guarantee Journal, December 1909, p. 35.

[2] The Commoner, Lincoln, Neb., vol. ix, No. 48, p. 2.

[3] The changes proposed were: —

First: That the state banking board be abolished and that the management and control of the guaranty fund be placed in the hands of the state bank commissioner.

Second: That the guaranty fund be redeposited with the banks from which it originated without interest.

Third: That the state bear the expense of maintaining and operating the guaranty fund.

Fourth: That upon the liquidation of any bank, this bank shall take over as an asset ninety per cent. of the unused portion of the guaranty fund contributed by it.

The first and fourth changes might be desirable. The others would be mistakes.

The accounts of banks were larger, and only such as could make a showing of need were taken care of at first. No bank seems to have been in jeopardy because of the tie up of its account in the Columbia. Legal proceedings asking that a receiver be appointed to wind up the bank in the old fashioned way were begun in two cases. One case was over a disputed claim, and the United States Court denied the petition for a receiver. The other case was that of a depositor aggrieved by having payment of his large deposit postponed in favor of smaller ones. The deposit was paid, however, and the proceedings were dismissed.

The Bank Commissioner's statement of October 30, 1909, a month after the failure, showed $411,000 of deposits still unpaid, not including the School Land Fund Account, secured by collateral and by surety company bonds, nor $20,000 due to the Treasurer of Oklahoma County. The unpaid deposits of banks were $262,000, while the unpaid individual and savings accounts, certificates of deposit, and miscellaneous items had been reduced to $149,000. This is an extraordinary showing, probably without a parallel. The deposit of the State Treasurer, amounting to $189,000, had been paid by the sale of collateral held to secure it. Other securities owned by the bank had been marketed, collections had been pushed, and $503,000 of the guaranty fund had been used. The total expense of the liquidation had been only $2,400, again a remarkable showing.

Besides the deposits, the bank owed $210,000 which the Bank Commissioner considered not a charge on the guaranty fund, — either public deposits secured by surety company bonds and collateral,[1] or amounts

[1] There is no good ground for the statement that Oklahoma is inconsistent in requiring banks to furnish security other than the guaranty fund to protect deposits

actually paid on behalf of the bank by surety companies liable on such deposits. The District Court at Oklahoma City has since ruled that the Commissioner is wrong, and that these liabilities are a charge on the guaranty fund.

To this item of	$210,000.00
Add unpaid deposits	411,675.41
Add amount due guaranty fund . .	503,725.25
And we have the bank's total liabilities October 30, 1908	$1,128,400.66

Mr. Norton and others had been induced to turn over to the State Banking Board notes, bonds, real estate, and oil producing properties valued at $563,600. These will have been a most important aid to the liquidation unless the Board shall be compelled to surrender them in bankruptcy proceedings that have been threatened in connection with another failure to be mentioned later. Besides the securities received from Mr. Norton, the Bank Commissioner had on hand October 30, assets of the bank of the nominal value of $1,199,600.63, making total of $1,763,200.63. A shrinkage of over $600,000 could occur, and still leave enough to repay the depositors, repay the guaranty fund, and repay to the banks the emergency assessment they had paid. The Bank Commissioner announced that the assessment would be repaid, and authorized such banks as wished to do so to carry it on their books and in their official statements as an amount "loaned to the state." The repayment of this "loan" depends on many things, and in the

of public funds. Such deposits are large enough to increase unduly, if special security be not required, the amount at the risk of the guaranty fund in single institutions. This is particularly true of the deposit of the guaranty fund itself. It would be unwise to let the fund secure itself. Cf. what is said on this subject in the account of the Texas and Nebraska laws, below, pp. 363, 364.

meantime it is an asset of problematical value. In many cases three-fourths of one per cent. of deposits is three per cent. of capital. To charge off the assessment would have meant to some banks passing the next semi-annual dividend, and would have made the guaranty law decidedly unpopular with their stockholders. While not at this time a vital matter, it would seem that it is a mistake of principle to try to make the assessment palatable by allowing it to be carried as a loan instead of ordering it charged off at once.

The liquidation of the bank proceeded rapidly. On November 13 (1909), the Commissioner said in a letter to the writer that the amount due to banks had been reduced from $1,300,000 at the time of the failure to $190,000. In an address at Sulphur, Oklahoma, on December 6th, the Commissioner said that the bank stilled owed only thirty-nine Oklahoma banks, and that the State Banking Board had then on hand sufficient cash to pay all individual depositors and all holders of Certificates of Deposit. The unpaid Certificates of Deposit amounted to $27,500, and the holders of these had been satisfied with " gilt edge " paper.

Prior to the failure of the Columbia Bank and Trust Company, Mr. Norton was apparently disposing of other banks he controlled. Among these was the Farmers National Bank of Tulsa, of which E. F. Blaise was President. About the middle of December the bank was closed, because, according to Mr. Blaise, of large indebtedness of Mr. Norton to the bank. Mr. Norton, according to press dispatches, denied that he owed the bank individually, and declined to say whether oil companies in which he was interested owed the bank or not.

The First State Bank of Kiefer was under allied management, and having $30,000 on deposit in the Tulsa bank, was carried down by the failure. Its deposits of $78,000 were promptly paid with the use of about $40,000 of the state guaranty fund.

Mr. Blaise asserted that unless Mr. Norton's indebtedness to the Tulsa bank was made good, bankruptcy proceedings would be instituted against Mr. Norton on the theory, doubtless, that in turning over securities to the State Banking Board, Mr. Norton was preferring the Columbia Bank and Trust Company to other creditors in a manner open to attack under the United States bankruptcy law. The Bank Commissioner advised Mr. Blaise not to institute proceedings, and he has not done so. Should he do so successfully, the $563,600 of securities turned over by Mr. Norton would have to be surrendered, and it might be impossible for the Bank Commissioner to reimburse the guaranty fund. Another emergency assessment on the state banks might even be necessary.

Another legal question that may involve the same possibilities has been mentioned above. It was the theory of the Bank Commissioner that public deposits secured by bonds executed by surety companies were excepted from the operation of the guaranty law, and were not insured by the guaranty fund. No such exception appears in the guaranty law; and surety companies that had furnished bonds, covering the deposits by the Land Commissioners' office in the Columbia Bank sought to have the Bank Commissioner restrained from repaying the state guaranty fund until he had paid the Land Commissioners' office its deposits pro rata with payments made to other depositors. Such an order was made by the District Court at Oklahoma City. The principle

involved applies to all public deposits secured by surety bonds, and if the decision is sustained by the Supreme Court, the full repayment of the emergency assessment will probably have to be postponed and perhaps abandoned.

Was the insurance of deposits to blame for the failure of the largest bank in Oklahoma? A national bank, we have seen, was carried down by similar bad management, and it is an open secret that still another national bank, of which Mr. Norton was President for several years, had to be taken over last fall by a new bank, under a new name and charter. Obviously, the Oklahoma insurance plan was not responsible for the misfortunes of these national banks. Yet it cannot be relieved of all responsibility for the Oklahoma City failure. The case was of the sort familiar enough (as New York City can witness) where control of a bank was bought by a man who, whatever his capacity for other business, ought not to have engaged in banking at all. His policies were unwisely liberal. For instance, in a number of cases he offered to receive from large institutions in other cities all their checks on Oklahoma points, enter credit to such institutions at par, and remit at par a week later. Now the exchange charges of Oklahoma country banks are usually considerable, and a week is scarcely more than enough to send checks and receive payment by mail. The Columbia Bank and Trust Company was probably losing money on the proposition; besides inflating its deposit and cash accounts in a way deceptive even to itself.

This is a minor matter, however, in comparison with the loans and overdrafts. The overdrafts when the Bank Commissioner took charge were $200,000. The total losses incurred by the bank have been

estimated by the Bank Commissioner at $400,000, and by the Oklahoma City Times at $800,000.

Now a liberal or reckless bank policy frequently attracts extensive deposits, and the business of the Columbia Bank and Trust Company would have grown a good deal under Norton's management even without deposit insurance. This insurance, however, made the growth faster and larger. Relying upon the insurance, Oklahoma banks, and outside banks too, felt safe in carrying deposit accounts with the Columbia, and in taking advantage of its liberality in collecting country checks at par. Outside of Oklahoma, the bank advertised widely. The writer spent the summer vacation on Lake Ontario, and in the Rochester paper read every Sunday the advertisement of the Columbia Bank and Trust Company for deposits at four per cent., "deposits guaranteed by the law of Oklahoma." Such advertising drew a good deal of outside money into the Columbia. It is evident, then, that just as critics predicted, the insurance of deposits has made it easier for an incompetent management to get deposits. The insurance system is not responsible for the failure of the Columbia Bank and Trust Company, but it is responsible for the magnitude of it.

In theoretical discussions of the subject, it is often suggested that under state-administered insurance of bank deposits, failures will be exceedingly rare; because, it is argued, official supervision will be more strict, and self interest will cause the banks to keep effective watch of each other's business. There is something in these suggestions, but it would not be safe to let them determine a legislative policy. Banks know about some of each other's loans, but by no means about all. If the mutual supervision of bankers

is wanted, it can be exercised effectively only through examiners reporting to a committee of the bankers themselves. Such a system has been adopted of late years in several clearing house cities. Oklahoma City has adopted it since the failure, and one of Commissioner Young's examiners has resigned to become the Oklahoma City Clearing House examiner. It has been proposed to extend the system over whole states, as in itself a safeguard to depositors. The mutual watchfulness of bankers did not save the Columbia Bank and Trust Company, nor was state supervision under the insurance plan strict enough to save it. The bank had, indeed, been examined, the Commissioner says, by two of his best deputies only about sixty days before the failure, and had been found in good condition.[1] Governor Haskell believes that the principal losses occurred within one month of the closing of the bank. This proves, if proof be needed, that no supervision can prevent the failure of bankers so unfortunate or imprudent as to make a quantity of bad investments in a short time.

It is alleged that the Columbia Bank and Trust Company was in politics, and that for this the insurance plan is to blame. The State Treasurer, James Menefee, held $25,000 of the capital stock. In buying stock, Mr. Menefee gave three notes of $10,000 each to the seller, who turned over at least two of them to the Columbia Bank and Trust Company. They were in the bank at the time of the failure, neither being due. One has since been paid. The State Treasurer, a stockholder, and in this manner a debtor of the bank, had on deposit there when it failed, $189,000, and as Treasurer of the State Banking Board, $76,000 more, secured as stated above.

[1] Oklahoma Banker, vol. 1, p. 166.

An appointive state officer is said to have owed the Columbia Bank and Trust Company about $6,000 to within a few days of the failure, when he learned of the bank's trouble and paid up. The Oklahoma City *Times* charged that Mr. Norton gave another banker $5,000 to "square things" with the banking authorities. The paper admitted that "things" were not "squared," and that the attorney for the State Banking Board made the banker turn the money into the assets of the bank. All this makes a bad mess, but there have been pet banks here and there since Andrew Jackson's time. Perhaps the Oklahoma state administration was glad to further what seemed to be a conspicuous example of the successful growth of banks under the guaranty law, and perhaps state officials got personal favors of the bank; but to blame the state guaranty system for these personal entanglements is too far fetched. At any rate, the political objection is not fundamental. There is no reason why politics cannot be as completely eliminated from the banking department of a state that insures deposits as from the same department in a state that does not.

The Attorney General recently began a grand jury investigation of the failure, and the Governor stopped him. The Governor was charged with playing politics again, and with stopping the proceedings to save somebody connected with the state administration. His answer was that such an investigation would interfere with the liquidation of the bank, that he wanted to collect what he could for the bank first, and let the grand jury investigate the failure afterwards. This seems reasonable.

The Oklahoma experiment raises another question as to the practicability of state insurance of deposits,

far more serious than the question of politics, more serious even than the stimulus to recklessly managed banks. This is the question of the size of single risks.

On June 23, 1909, the total deposits in Oklahoma state banks were about $47,000,000. The deposits of the Columbia Bank and Trust Company at the time of failure were about $3,000,000, or six per cent. of the total amount at risk. What would happen to a fire insurance company that ran its business so? There is, of course, usually more salvage after a great bank failure than after a great fire, but it takes time to realize on the salvage. The Oklahoma experiment has shown that altho depositors in failed banks may be paid rapidly if the authorities can exercise discretion as to whom to pay, payment immediately upon a failure cannot be promised.

It took only one failure to show this, and another great failure might have broken the Oklahoma system down. What would have happened if another large bank had failed soon after the Columbia Bank and Trust Company, and if its President had not been able to turn over valuable securities? Another assessment would have been necessary to pay depositors immediately, as provided by law. Would the banks, already smarting under an assessment that absorbed a dividend, have paid another assessment without a fight? Probably not. If they had been forced to pay, would not sympathy for the banks have led to the repeal of the law? Probably it would. The Oklahoma plan cannot be a success until a guaranty fund has become very large. Until then, the plan is not insurance, because there is no proper distribution of risks. It is wagering that there will not be enough failures of big institutions to upset the guaranty plan before the necessary reserve has been accumu-

lated. The wager may be successful. Apart from the observed tendency to stimulate improper banking, the statistics of bank failures indicate that it would be successful. There is no certainty about it, however.

Fire insurance companies pay losses only after the amount of salvage has been ascertained or closely estimated. Could a state deposit insurance plan be operated successfully on the same principle? Depositors would probably be satisfied with negotiable certificates, bearing interest while liquidation was going on, just as the notes of Canadian banks draw interest after failure. If the guaranty were good, such certificates would doubtless be purchased or accepted as collateral by other banks.

To some extent the fact that no state-administered deposit insurance scheme can limit the size of risks would jeopardize even a system of payment after liquidation; but such a system would have more chance of success than the scheme of paying as soon as a failure occurs. The salvage in national bank failures averages eighty-two per cent. of the deposits [1] and should be as much in Oklahoma. Perhaps the Oklahoma plan, modified as here suggested, might be a success. Big failures, however, are always possible anywhere, and there would be for many years the possibility of a breakdown, since no state-administered deposit insurance system can limit the size of risks. For the present the success of the Oklahoma plan will be dependent on good luck. It takes seventeen years to accumulate the fund of five per cent. of deposits provided for by the guaranty law, and, in view of the large deposits to be insured in single banks, it is doubtful if even a five per cent. fund would always be adequate to the immediate payment of depositors.

[1] Report of Comptroller of the Currency, 1908, p. 86.

If further heavy losses do not occur for a number of years, the guaranty fund may grow into a sufficient reserve. Until then the plan will be an experiment only. The objection of the size of particular risks is inseparable from state-administered deposit insurance, and can be overcome only by engaging private enterprise in the deposit insurance business.

After the levy of the emergency assessment there was a good deal of talk of the conversion of state banks into national banks to escape future experiences of the kind. The office of the Comptroller of the Currency informs the writer that it is not practicable to announce how many state banks have applied for authority to convert. The Bank Commissioner of Oklahoma says the number is two, and two reorganizations or conversions are all that the writer has noticed in the press dispatches, one at Oklahoma City, and one at Enid, the latter being a reconversion of a state bank that had formerly been a national bank. Five national banks were converted into state institutions between September 1 and November 16, 1909. The state banks continue popular, as would be expected after the apparent success of the insurance plan exhibited in the liquidation of $3,000,000 of deposits. The following table shows that the decrease in the number of national banks and the increase in the number of state banks continue.

State Banks

	June 23, 1909	Sept. 1, 1909	Nov. 16, 1909
Number	631	646	662
Individual Deposits	$42,722,927	$44,777,259	$49,775,433
Total Deposits	47,147,062	Not ascertained	54,963,266

National Banks

	June 23, 1909	Sept. 1, 1909	Nov. 16, 1909
Number	230	225	220
Individual deposits	$38,111,948	$37,726,265	$41,617,228
Total deposits	44,450,759	43,878,444	50,666,687

There were early predictions of disaster on account of the organization of small banks in such large numbers, but these banks seem to be getting on. A Western country bank can pay expenses if it can obtain $20,000 of deposits, and in a growing country the future of such a bank is reasonably sure. If some banks have been opened where not required, they will consolidate with others or will liquidate. Their passing will not cause disturbance. Nor has there been any general development of rascality. It may be that here and there is a banker whose antecedents are bad. It is now more difficult than ever for a man of bad record to get into the banking business in Oklahoma. Perhaps there are such in a few Oklahoma banks already; Oklahoma is a new country, and it would be strange if an occasional rascal did not come in. The writer speaks from personal knowledge, however, in stating that Oklahoma bankers, taken by and large, are competent, and men of character.

The failure of one or two banks does not disprove the theory of state-administered deposit insurance, nor does their successful liquidation prove it. The study of the Oklahoma experiment, however, gives us some conclusions of vital importance: —

I. There is need of greater assurance of the safety of deposits than is afforded by mere inspection and supervision. Given assurance which it considers adequate, the public will make greater use of banks, and more banks will be established. We shall consider later how widely this conclusion is valid.

II. The state cannot undertake to pay deposits in full as soon as a bank closes.

III. The insurance of bank deposits assists the growth of bad banks as well as good.

IV. Under a state deposit insurance system the risk that will be assumed on a single bank cannot be limited.

These results will be useful in the consideration of the subject as a whole, after the experiments in other states have been examined.

Kansas

Oklahoma politics reflect the originality and venturesomeness of the pioneer American, but in the serious consideration of bank deposit guaranty, Oklahoma was long anticipated by Kansas. The writer heard the Governor of Kansas, Major Morrill, a Republican and a banker, say in an address before the Convention of the Kansas Bankers' Association, as early as 1895, that he believed the government should guarantee the deposits in banks; tho in later years Major Morrill opposed the plan. Mr. John W. Breidenthal, Bank Commissioner of Kansas, in the fourth biennial report of his department, September 1, 1898, recommended the enactment of a deposit guaranty law. Mr. Breidenthal, a Populist, was an efficient Commissioner. In the following November, Governor Leedy, also a Populist, was defeated for re-election. In order that deposit guaranty legislation might be had, the Governor called a special session of the legislature, believing that the measure could be put through before the inauguration of his republican successor. The bill provided that banks might either pay to the guaranty fund assessments of one-eighth of one per cent. of their deposits, or place five

per cent. of their deposits with the state treasurer, the income of the five per cent. to go to the guaranty fund. Prominent bankers were at Topeka opposing the bill. It passed the senate, and, after a hot parliamentary struggle in the house, it received the votes of fifty-nine members, a majority of those present, but four short of a constitutional majority. The four votes lacking could not be obtained, and the bill failed. Mr. Breidenthal says that four legislators were bribed to vote against it.

Nearly ten years later, Governor Hoch, a Republican, called another special session for the same purpose. The deposit guaranty proposal was ably supported, and apparently sure of adoption, but, in the last few days of the session, the opposition succeeded in sidetracking guaranty by adopting a bill authorizing the formation of a company to insure deposits. Governor Hoch vetoed the bill as a worthless makeshift, and because, as he said, he would rather delay guaranty than have it on the wrong basis.

In the summer of 1908, however, the Democrats of Kansas, following the lead of the national convention, put into their platform a deposit guaranty plank. Many of the "progressives" in the Republican party — they are also known as "boss busters" — believed in bank guaranty, and believed that it would be popular in Kansas. It was, therefore, advocated in the Republican platform also. The Republicans won the election, and the legislature met in January, 1909, with both parties pledged to the guaranty of bank deposits. A system for the purpose, really an insurance system, was provided after a strenuous session, by the Act of March 6, 1909, which went into effect July 1st.

The Kansas law differs markedly from the law of Oklahoma. Perhaps the two most vigorous criticisms

of deposit guaranty have been that it compels good banks to pay the depositors of failed banks, and that incompetent or dishonest bankers will draw away the business of conservative bankers by paying extravagant interest on deposits. Moved by these criticisms the Kansas legislators made it optional with the banks whether to insure their deposits or not, and provided that no bank paying more than three per cent. interest on any class of deposits could insure any deposits whatever. To discourage the organization of new banks for the purpose of getting away the deposits of established banks, it was provided that, before participating in the guaranty plan, a bank must have an unimpaired surplus equal to ten per cent. of its capital, and must have been in business one year. National and private banks and trust companies that reorganize as state banks may, however, participate immediately. National banks, indeed, may participate as such, so far as the Kansas law goes; but are forbidden by the federal department from doing so. It is provided also that if no one of the existing banks in a town participates in the plan within six months after July 1, 1909 (when the law took effect), a new bank may then, if otherwise qualified, come under the plan at once.

The deposits insured are non-interest-bearing accounts, savings accounts of not over $100 each, and time certificates of deposit payable from six months to one year after date, and drawing not over three per cent. interest. This excludes the deposits of other banks, for these deposits are almost always on running accounts at from two to three per cent. interest. The assessments for the guaranty fund are levied not on the amount of deposits, but on the amount of deposits eligible to guaranty, less the

capital and surplus of the bank. This introduces a sort of classification of risks, — the only attempt at such classification in the guaranty law of any state. The larger a bank's capital and surplus in proportion to its deposits, the less will be its assessment or premium, and to this extent the Kansas law encourages the accumulation of capital and surplus. The assessments are to be made annually until the guaranty fund reaches $500,000. If the fund is depleted, as many as five assessments may be called for in one year. To guarantee the payment of the assessments, $500 for each $100,000 of deposits must be deposited with the State Treasurer in cash or in certain bonds.

The Kansas law requires the Bank Commissioner to examine rigidly each bank applying for permission to participate in the guaranty plan, just as the Oklahoma Commissioner did of his own motion. As participation is voluntary, so banks may withdraw from the guaranty by giving notice to the Commissioner. They must, however, pay all assessments that may be made on account of banks that have already failed and banks that fail within the next six months.

The assessments in the Kansas plan are small because no attempt is to be made to pay depositors in full on the closing of a bank. The assets, including the liability of the stockholders, are first to be realized upon. Only the loss remaining after the liquidation of the assets will be paid out of the depositors' guaranty fund. In the meantime, certificates bearing six per cent. will have been issued to the depositors, and it is expected that these can be sold or pledged to other banks, so that general business will not suffer as it frequently suffers when funds are tied up in insolvent banks. As in Oklahoma, so in Kansas, the

legislation for the insurance of bank deposits was accompanied by legislation providing additional regulations for banks.[1]

Once the deposit guaranty act was passed, it was undoubtedly the desire of most of the national bankers of Kansas to participate in the system. The maximum assessment could in no year exceed one-fourth of one per cent. of deposits, and the near-by example of Oklahoma seemed convincing as to the effect of deposit insurance upon the banks that provided it and the banks that did not. But the Comptroller of the Currency, Mr. Murray, held that national banks could not lawfully participate in the guaranty of deposits under the Kansas law. Through the Secretary of the Treasury, he asked for the opinion of Attorney General Wickersham whether national banks had the right to participate in the assessments and benefits of the bank depositors' guaranty fund of the State of Kansas upon the same terms and conditions as applied to state banks. Governor Stubbs, Bank Commissioner Dolley, and Attorney General Jackson, of Kansas, saw Mr. Wickersham in Washington March 31, 1909, and argued in the affirmative; but Mr. Wickersham's opinion, rendered April 6, 1909, was in the negative. He shared the opinion of his predecessor, Mr. Bonaparte, expressed in the Okla-

[1] Some of these are: —

A majority of the directors must be residents of the county in which the bank is located or of some adjoining county.

A stockholder to be eligible to the position of director or cashier must own at least five shares of stock, which shall not be hypothecated.

The Bank Commissioner may refuse to consider as a part of the legal reserve of any bank, balances due to the bank from any other bank, any of the stockholders of which are stockholders in such depositing bank.

Any officer of any state bank who may be found by the Bank Commissioner to be dishonest, reckless, or incompetent, shall be removed from office by the directors of the bank on the written order of the Bank Commissioner.

It is unlawful for any state bank, whether its deposits are insured or not, to accept deposits continuously for six months in excess of ten times its paid up capital and surplus. — Act of March 5, 1909.

homa case, that national banks have not the power to insure their depositors against loss. Mr. Wickersham said further that even had national banks such power, they had not the power to submit themselves, as required by the Kansas statute, to examinations and other forms of control by the banking department of the State of Kansas. "Only an act of Congress," he said, "can confer such powers upon national banks."[1] Senator Curtis and Representative Madison of Kansas introduced bills in Congress to grant national banks authority to participate in deposit guaranty systems, but no action was taken.

The national banks of Kansas had already held a meeting in Topeka, March 26th, to consider what their course should be. They decided to await the return of the Governor and his advisers from Washington, and agreed that if the final decision should be that national banks could not lawfully participate in the guaranty of deposits, the national banks would then organize a currency association under the Aldrich-Vreeland Act, believing that this action would assure depositors that there would always be a sufficiency of currency. It was further agreed that they would organize a company to insure bank deposits, both in national and in state banks.

Tho the currency association has not been organized, the organization of the Kansas Bank Deposit Guaranty and Surety Company is well under way. Of course, banks cannot, as such, subscribe for stock in an insurance company; yet it was desired that the banks should hold the stock. The difficulty was obviated in this way. Each bank that wished to aid in the organization of the Company had its shareholders appoint some one, usually the president of the bank,

[1] Report of Comptroller of the Currency, 1909, p. 94.

as trustee to hold the insurance stock in behalf of the shareholders. They authorized the payment to the trustee of a dividend of two and one-half per cent. of the capital and surplus of the bank, to be used to pay for stock in the insurance company. It will be recalled that the Attorney General of the United States is of the opinion that national banks cannot use their funds to pay premiums for the insurance of their deposits.[1] The premiums due the Kansas company are, however, to be paid not out of the funds of the banks insured, but out of special dividends duly declared, and, after such declaration, paid as premiums by the authority, previously given, of the shareholders individually. Dividends are not funds of the bank, but the property of the shareholders, and there is nothing to prevent the shareholders from using their own property to purchase insurance for the depositors. The premium rates have been fixed at fifty cents for each thousand dollars of deposits up to the amount of the capital and surplus of the insuring bank, and at one dollar for each thousand of deposits in excess of capital and surplus; that is, one-twentieth and one-tenth of one per cent. respectively, the former being the initial rate in the state system. This is analogous to the credit the state guaranty scheme allows for capital and surplus.

At the meeting of national bankers in Topeka, March 26, 1909, Mr. Dolley, the Bank Commissioner, was present and was not at all unfavorable to the plan of a deposit insurance company. He stated that he would be impartial and would leave the state banker to decide for himself whether to go into the guaranty system provided by the state or to take

[1] Under a later opinion, the same result may be accomplished by insuring assets in a certain way. Report of Comptroller of the Currency, 1909, p. 94.

out insurance in the proposed company. Later, Mr. Dolley changed his mind, and in speaking of the insurance company and the guaranty fund, at the annual convention of the Kansas Bankers' Association at Wichita, he said, "Every state banker should know where his home is."[1] In fact, there was fear that the state bankers would prefer to take out insurance instead of participating in the guaranty system provided by law; participation in Kansas being voluntary, and not permitted to banks that pay over three per cent. interest, even on time deposits. Now just as the Oklahoma limit of four per cent. is below the economic rate in parts of that state, so three per cent. is too low in a large part of Kansas, and not only national but state banks advertised that they would insure their deposits in the new company and continue to pay four per cent. interest. This competition might keep many banks from participating in the guaranty scheme and might draw away some of the depositors of the banks in the scheme. So serious was this possibility considered, that there was much talk of an extra session of the legislature to amend the law so that state banks could pay four per cent.; but the Attorney General of Kansas concluded that the Insurance Department of the state could forbid the company to insure the deposits of banks that paid more than guaranteed banks were allowed to pay.

The authorized capital of the Kansas Bank Deposit Guaranty and Surety Company is $500,000. Of this $346,550 has been subscribed and $257,850 paid in. It was even announced that the Company would begin to write insurance. Meanwhile, however, legal complications have arisen. A Nebraska law

[1] Proceedings Kansas Bankers' Association, 1909, p. 50.

for state insurance of bank deposits had been held unconstitutional by the United States Circuit Court. The Kansas law was attacked on similar grounds. Among the lawyers engaged to conduct the case against it were Senator Waggener, a Democrat, attorney for the Missouri Pacific Railway, and ex-Senator Long, a Republican, who had been defeated for re-election in 1909 by the "boss busters." The guaranty of deposits is a "boss buster" asset, and the "old crowd" would not be sorry to have it declared unconstitutional. On December 24, 1909, the Circuit Court granted a temporary injunction against the enforcement of the act. The case was to be appealed to the Circuit Court of Appeals. But it is now stated that a special session of the state legislature will be called to amend the law; such an extra session being expected to cost less than sustained legal proceedings. A suit to test the validity of the law under the state constitution is also pending in the Kansas Supreme Court. Hence the legal situation and the mutual outcome are still involved in uncertainty; and the Deposit Guaranty Company is not yet ready to do business.

No attempt can be made here to enter on the legal question. But all this litigation proves one thing of significance. The fact that it seemed worth while to raise a fund and engage in litigation proves that even bankers opposed to the principle of insurance of deposits through a fund administered by the state, realize that such insurance makes a powerful appeal to the people, and will affect the distribution of deposits.

Many new state banks were organized in Kansas in 1909. Banks organized after March 5, at points where there are banks already, cannot have their

deposits insured for six months or a year, but in some towns that had banks, as well as in some that had not, the organization of new banks was somewhat hastened by the idea that deposits would come more easily once a bank was under guaranty. Eighty-seven state banks were organized from September 1, 1908 to December 17, 1909, thirty-eight of them in towns that had no banks before. Six national banks, of which one was a reorganization, were organized from October 31, 1908, to December 23, 1909. All of these were in towns that had banks already. About ten national banks have been converted into state banks.[1]

As in Oklahoma, so in Kansas, the establishment of a system of deposit insurance has led some of the state bankers to the conclusion that their interests are no longer identical with those of the national banks. They have, therefore, organized the Kansas State Bankers' Association, which is wholly independent of the Kansas Bankers' Association, and, like the older organization, will procure fidelity bonds and burglary insurance for its members.

By the middle of September, 1909, 451 banks had applied to have their deposits guaranteed, and 229 had paid their assessments, deposited their bonds, and were under guaranty. Some of the applications had been made by banks that did not intend to go into the system at once, but applied in order that they might receive the necessary examinations and be ready to go in without delay should it prove advisable later to do so. On September 28, 1908, Bank Commissioner Dolley stated to the press that " the banks that have applied for participation have a combined capital stock of $7,350,000 and a combined surplus of $2,140,000. The combined capital stock of banks

[1] See the appendix for items from recent statements of Kansas banks.

that have not applied is $5,930,000 and these banks have a surplus fund of $1,680,000." The Commissioner concluded that "the stronger state banks of Kansas believe in the guaranty law and have availed themselves of opportunities to at once come under its provisions." On the same date, according to a letter from the Commissioner, 300 banks were actually in the guaranty system. By the end of October, 365 were in. The amount in the guaranty fund December 17 was $17,000, besides $276,876 of bonds and cash deposited to guarantee payment of future assessments. This would indicate about $40,000,000 of individual deposits in the guaranteed banks. The Kansas banks are splendid risks now. Their customers are prosperous. Alfalfa and cattle have made a great change in Kansas agriculture since the days when wheat and corn were almost the only dependence of many farmers. Mining and manufacturing flourish also in many places. The state is rich. It is to be remembered, too, that the Kansas fund will be used only to pay losses finally ascertained at the winding up of failed banks, and that four additional assessments equal to the one now paid in could be levied within a year. Nevertheless, a fund of $17,000 is a small one for starting an insurance business with $40,000,000 of risks.

As the law went into effect only July 1, 1909, and as banks have been going into the guaranty system ever since, the Bank Commissioner has given out no statement of the effect of the guaranty law on the deposits of the banks that have accepted its provisions. The effect is probably slight. There are some stories that money has come out of hiding and gone into the banks; and the advertisement of the guaranty has increased the deposits of some banks.

The time has been short and the multifarious litigation confusing. The scheme has not been so thoroly advertised by talk and print as in Oklahoma. Indeed, the smallness of the fund has been criticised with effect, and there is no popular interest in the subject. The guaranty of deposits has had as yet no real test in Kansas. None the less, such small results as have been observed bear out the evident expectation of the bankers who organized the insurance company, and of those who instituted court proceedings, that deposits, if adequately insured, would grow.

Nebraska

In Nebraska also deposit guaranty is not a new proposal. In every session of the legislature for nearly twenty years there have been one or more bills for the guaranty of bank deposits. In the days of the Populist party, one serious attempt to pass a guaranty bill was defeated partly through the efforts of Mr. Shallenberger, who, curiously enough, was long after, in 1908, elected Governor by the Democrats on a deposit guaranty platform. In that year the Democratic campaigners had made much of deposit guaranty on the stump. The Republicans had not met them on the issue; in fact, their nominee for Governor, ex-Governor Sheldon, had rather favored the proposal. It is said that a majority of the members of the legislature were never convinced of the wisdom of guaranty legislation, and that, notwithstanding campaign pledges, there might have been no such legislation but for the personal influence of Mr. Bryan, who insisted that promises be redeemed.

Deposit guaranty, or insurance, was provided by the Act of March 25, 1909. Its chief provisions in

comparison with those of the laws of other states have already been indicated.[1] Participation in the guaranty is compulsory for all state banking institutions. No provision is made for national banks. Four assessments, each amounting to one-quarter of one per cent. of average deposits, are to be made by the State Banking Board between July 1, 1909 (when the law was to take effect) and January 1, 1911. Thereafter, semi-annual payments of one-twentieth of one per cent. of deposits are to be made. Special assessments not exceeding one per cent. in one year may be levied to restore the fund if depleted. The assessments are not to be paid over to the State Banking Board, but each bank is to credit the amount assessed against it to the State Banking Board, payable on demand. This is an arrangement that might easily lead to trouble. Insurance premiums, for that is what these assessments are, should be paid over to the insurer, not held by the insured, subject to all sorts of claims and processes if the insured happens to think his insurance is proving too expensive.

All deposits are insured, and the deposits of every failed bank are to be paid in full as soon as the deficiency in the cash turned over to the receiver is determined. The State Banking Board will obtain funds to meet the deficiency by drawing checks against the assessment accounts standing to their credit in all the state banks.

The act made the regulation of banking more stringent in several particulars. The minimum capital of banks thereafter organized was increased. The qualifications of directors were made in some respects more exacting than are the qualifications of the directors of national banks. Most important regulation of all,

[1] See the table opposite p. 88 of the November issue of this Journal.

the act limited banking to corporations, and forbade individuals and firms to carry on the business.

At the time of the passage of the act, there was some activity in organizing state banks, but the Secretary of the State Banking Board, in a letter to the writer, expresses the opinion that few banks have been organized for the purpose of taking advantage of the guaranty law. No national banks converted for the purpose. "Several state banks, however," he says, "have nationalized in order to get out from under the new law, and several more would have done so had the law gone into effect."

The law is not yet in effect and may never be. Many state banks and two private banks obtained from the United States Circuit Court an injunction prohibiting the state authorities from putting the law in operation. The same questions were raised as in the Oklahoma case, whether an assessment for the deposit guaranty fund would be a mere police regulation of the conditions under which the business of banking should be carried on, and so within the power of the state to levy; or whether it would be depriving sound banks of their property without process of law, and turning that property over to the depositors in unsound banks. There was raised also the uestion whether the state could constitutionally legislate its thirteen private banks out of existence. The Court expressly declined to rule upon either of these points separately, but held that taken together they established the invalidity of the act.[1] The

[1] "The act not only attempts to exclude individuals from engaging in the banking business, unless they do so through the agency of a corporation, but also attempts to impose upon them, as a condition to their engaging in that business even in that form, a duty to make good the obligations of all other bankers in the State to their depositors." . . . "we are of the opinion that this cannot be done consistently with the 14th Amendment to the National Constitution." First State Bank of Holbein, et al, vs. Shallenberger, Governor; Journal of American Bankers' Association, vol. ii, p. 187.

case has been appealed to the United States Supreme Court. Meantime, neither the additional regulations of banking provided for by the act nor its guaranty provisions are in effect.

Altho the experiment of deposit guaranty has thus not yet begun in Nebraska, one can see, from the politics and the litigation, as in Kansas and Oklahoma, that bankers naturally oppose deposit guaranty and deny its necessity, and yet that very many of the people are expected to place their deposits under it if given a chance. Bankers, to do them justice, fight the scheme not only because they expect it to move some deposits from long established banks to new institutions, but because they think such removal will tend to encourage unwisely liberal, even reckless methods, to the ultimate loss of the community, especially the banks. This possibility can, however, best be discussed after our review of legislation is completed.

South Dakota

Tho manufacturing and the wholesale trades are progressing rapidly in the states whose recent banking history we are considering, the interests of the group remain predominantly agricultural or pastoral. This is particularly the case with South Dakota. The people had plenty of wheat, flax, oats, corn, cattle, horses, sheep, and hogs for sale, and the panic of 1907 was soon forgotten. Only one bank failed in the state in three years preceding the deposit insurance legislation of 1909, and that bank paid one hundred cents on the dollar. Probably there would have been no attempt at deposit insurance legislation had not the Democratic state convention followed the

national convention by putting a guaranty plank into the state platform. Not to be outdone by this vote catcher, the Republicans also indorsed the guaranty plan, so that it was in the platforms of both parties, just as it was in Kansas.

The Republicans, it will be remembered, carried the state; and their advocacy of the new plan became cool. With the scheme in the platforms of both parties, however, there seemed to be no way out, and it became a question, apparently, of how little could be consistently done.[1] The provisions of the scheme adopted in the Act of March 9, 1909, have been outlined. Like the Kansas plan, the South Dakota plan is voluntary. But while a single Kansas bank could take the state-administered deposit insurance, and by paying its initial assessment establish a guaranty fund, it would take one hundred banks to set the South Dakota plan in operation. One hundred banks, or more, could organize "the State Association of Incorporated Banks." The membership fee would be from $100 to $170 each, according to capital. The annual premium would be one-tenth of one per cent. of the deposits, except public deposits otherwise secured. In case of need, special assessments might be levied, not exceeding in any year four-tenths of one per cent. of deposits. Out of the fund thus established the depositors of failed banks would be paid. If the fund were insufficient at the time of a bank failure, the subsequent accumulations of the fund for the year covered by the last premium paid by the insolvent bank would be paid to depositors pro rata. Depositors would apparently lose what was unpaid at the expiration of the premium year.

[1] One banker said in a letter to the writer: "The law which they passed is considerable of an abortion and the intention in passing the same was to make it so abortive that it would neither hold water under the Supreme Court, or that no bank would take it up."

It was probably not expected by many that an Association would be formed under the act. Perhaps half a dozen banks have written the Public Examiner asking if any movement were under way to organize an Association, but there has been no movement, and the matter has dropped.

The legislature, however, passed an excellent general banking law. The Act of 1903, amended in 1907, was a comparatively short law, not so definite or particular as is now deemed advisable in banking legislation. The Act of 1909 increases the minimum capital of a state bank to $10,000 or more, according to population. Directors, while still eligible if owning five shares, must own these free of pledge. Directors, or a committee of stockholders, must examine their banks twice a year and report to the Public Examiner what they find. The Public Examiner is allowed two additional examiners on his force. These and other provisions will strengthen the banks and the Public Examiner's department.

The South Dakota banks have been given the opportunity to effect insurance for the benefit of their depositors, but have not done so because not required by law. For two reasons, this is different from the course of hundreds of Kansas bankers under a voluntary plan. First, the Kansas plan is more flexible, being available to individual banks. Second, the Kansas bankers were induced to avail themselves of the plan by the apparent early success of the neighboring Oklahoma plan, similar but compulsory. The recommendation of the Kansas Bank Commissioner to the banks under his supervision also contributed to the result observed in Kansas.

It is not likely that the South Dakota plan will ever be used at all.

TEXAS

As in Kansas, Nebraska, and South Dakota, the first distinct impetus to deposit insurance legislation in Texas was furnished by the Democratic national platform. The loyalty of Texas to this party is proverbial, and it was almost as a matter of course that the state convention adopted a similar plank. It is doubtful, however, if even party regularity would have been a sufficient force to pass a guaranty bill without the strongly exerted influence of the Governor and of Bank Commissioner Love, both firm believers in the wisdom of the plan. They were reinforced by Mr. Bryan himself, who, while on a visit to the state, visited the legislature and advocated the guaranty of bank deposits in a speech from the speaker's stand. The bankers in the cities were, as a rule, opposed, but many of the country bankers favored the guaranty scheme, as a preventive of panic and a builder of deposits. The failure of the Western Bank and Trust Company of Dallas under discreditable circumstances was comparatively recent, and had left a pronounced sentiment in favor of some measure that would in the future afford depositors reasonable assurance of safety.

Notwithstanding politics, official pressure, and a favoring sentiment on the part of some banks and much of the public, the regular session of the thirty-first legislature adjourned March 12, 1909, without action on the subject. The Governor issued a call March 13 for a special session to convene the same day, and gave as one of the purposes of the session that of enacting legislation to guarantee bank deposits. This "called session," however, adjourned

April 11, without passing a guaranty bill. The Governor then called still another session to meet the next day. This second "called session" gave Texas a guaranty law. It went into effect August 9, 1909, and under its provisions, the guaranty plan went into operation January 1, 1910.

Under this law any bank has nominally an option whether to protect its depositors by contributing to a guaranty fund or by filing annually with the Commissioner of Insurance or Banking, "on behalf of its depositors," "a bond, policy of insurance, or other guaranty of indemnity in an amount equal to the amount of its capital stock," or if a private bank, "in an amount to be fixed by the Commissioner of Insurance," but in no case less than one-half the average deposits of the preceding twelve months. Incorporated banks must file additional security when their deposits exceed six times their capital and surplus.[1]

Now a policy of insurance or a bond procured from some surety company for the benefit of the depositors would cost at present rates one-half of one per cent. of the deposits, while the annual assessments, under the guaranty fund plan, are to be, except in emergencies, only one-fourth of one per cent. If resort is had to individual sureties, there must be at least three of them. Most bankers would hesitate to ask customers, even directors, to sign a bond equal to the whole capital of the bank so to be guaranteed, and most customers or directors would hesitate to sign even if the request were made. Moreover a personal bond, made, as it would be, by the active management or by its close friends, would reassure few depositors in uneasy times and would attract

[1] Sections 15 and 22 of Bank Guaranty Law effective August 9, 1909.

few new depositors in good times. If the management turned out bad, the bond would not often be much better, and experience proves that even solvent sureties would usually seek in every way to avoid payment. As a matter of fact, only 42 banks had chosen the bond security plan on October 1, 1909, by which date all the banks operating under the Texas banking law were required to elect which form of security they would provide for their depositors.

There are provisions in the Texas law permitting national banks to avail themselves either of the guaranty fund plan or of the bond security plan. Under the opinions of Attorney General Bonaparte and Attorney General Wickersham, on the Oklahoma and Kansas laws, the former plan is not open to national banks, but doubtless any national bank could file a bond to secure its depositors, provided it did not, as a bank, pay anything for such bond.

The outline of the Texas guaranty fund plan is like that of Oklahoma, with interesting variations. It applies to incorporated banks. The initial assessment is one per cent. of average deposits for the year ending November 1, 1909. The regular annual assessment is one-fourth of one per cent. of average deposits, but in emergency the total assessments for any year may run to two per cent. of deposits. Twenty-five per cent. of these assessments is to be paid by the banks to the State Banking Board, and will be deposited by the Board with the State Treasurer. Each bank will credit on its books seventy-five per cent. of each assessment upon it to the State Banking Board, subject to check. This retention of part of the assessments follows the law of Nebraska, where all the assessments were to be paid in the first instance by this book-keeping device. The scheme is a defect

in the laws of both these states. Some Oklahoma banks seriously contemplated resisting the payment of the drafts of the State Banking Board for the recent emergency assessment, and many more banks were exceedingly restive. In Texas and Nebraska the banks would hate to see the guaranty fund drawn upon, even tho carried on a separate ledger page. Checks by the Banking Boards might prove a precarious resource. It would be better to collect all assessments at once and keep the fund in the State Treasury or in marketable securities.

The maximum amount of the Texas guaranty fund is $2,000,000. After the fund reaches that figure, the only further assessments will be to restore it when temporarily reduced. As in Oklahoma, it is provided that depositors shall be paid in full on the closing of a bank. This, as Oklahoma experience shows, cannot be promised safely.

The Act of 1909 provided additional general regulations of banking, such as have been adopted in all the states in which there has been deposit insurance legislation, and partly because of it. If bankers are responsible for each other, they desire that all shall be required to conform to adequate regulations. Probably the most interesting and important of the new Texas regulations is the attempt to establish a relation between deposits and capital. We have seen that banks under the bond security plan must file additional security if deposits exceed six times capital and surplus. It is further provided that capital must be increased as deposits increase. If, for instance, the deposits of a bank of $10,000 capital average for a year more than five times its capital and surplus, the bank must increase its capital by twenty-five per cent. So banks with capital up to

$20,000, $40,000, $75,000, $100,000, and over $100,000 must increase capital by twenty-five per cent. when deposits exceed six, seven, eight, nine, and ten times their respective present capitals. Other changes are in provisions for examinations quarterly instead of annually, and limiting the liabilities a director may incur to his bank.

The total number of elections of the guaranty fund plan to December 29, 1909 was 493, and of the bond security plan (as stated above) only 42. Existing banks were required to make their elections not later than October 1, 1909. The failure in an adjacent state of the Columbia Bank and Trust Company of Oklahoma City, at the close of September, seems not to have caused the Texas bankers to fear that in choosing the guaranty fund system they had chosen the wrong plan.

One indication of the attractiveness of guaranty deserves mention. The Texas constitution of 1876 had forbidden the incorporation of banks.[1] A great many private banks grew up, and there were some existing charters that the constitution could not abrogate. Many of these gave exceedingly wide powers, like the charters under which banking was sometimes conducted in connection with various other business before the Civil War. The Western Bank and Trust Company of Dallas, for instance, was a cotton factor. These charters have been much used of late years, and parent institutions have established numerous branches. After a change in the constitution, a general banking law was adopted in 1905, and many banks were incorporated. The Bank Guaranty Law of 1909 has now provided that,

[1] "No corporate body shall hereafter be created, renewed, or extended with banking or discounting privilege." Art. xvi, Sec. 16, Const. of Texas, 1876.

by discontinuing branches, institutions operating under special charters may avail themselves of either the bond security plan or the guaranty fund plan. A remarkable instance of the effect of the guaranty law appeared in the case of the Continental Bank and Trust Company, of Fort Worth, which has discontinued its thirty branches, and has reorganized them as separate banks, all of them electing the guaranty fund plan.

No fewer than eighty-nine state banks were organized between June 20 and December 29, 1909, with a total capital of $3,167,500. Eight were conversions of national banks. Tho this activity in bank organization must be ascribed chiefly to the present rapid development of a wonderful state, the fact that banks can attract deposits more rapidly under a system of deposit guaranty has undoubtedly in some cases made possible the establishment of banking facilities sooner than they would otherwise have been provided. This consideration must not be exaggerated, however. The organization of eighty-nine banks in so few months is striking, but not wholly exceptional. There was an increase of eighty-six in the number of Texas state banks and trust companies between the May statements of 1907 and 1908, long before the guaranty legislation.

In the Appendix [1] are some figures from recent Texas bank statements.

As the guaranty of deposits in Texas banks began only on the first of this year, there are no comparisons to be made. So far the Texas law has not been attacked in court. As the largest commonwealth in the United States, it is a wonderfully interesting field for a financial experiment, and the result will be important.

[1] See p 391.

Colorado and Missouri

The bank guaranty scheme was proposed in the legislatures of many other states, but failed of adoption. Of these cases the legislative experiences of Colorado and Missouri are, perhaps, the most interesting.

In Colorado the Democrats, following the example of the national convention held in Denver, put a guaranty plank into the state platform, and, being successful in the election of 1908, brought the guaranty matter forward in January, 1909, early in the session of the Legislature. The matter was fought over until April. The guaranty bill was a carefully drawn measure, providing for the accumulation of a fund of one per cent. of the deposits. Of this fund, two-fifths was to be paid in at once, and one-fifth each year thereafter. In case the fund should be impaired, special assessments to replenish it might be made, not exceeding one per cent. of the deposits in any one year. The interest to be allowed on deposits was limited to four per cent.

It is only of recent years that Colorado has had an adequate banking law, and there was no Bank Commissioner until 1908. Some good sized bank failures had occurred. This fact reinforced the political situation, and apparently strengthened the chances of the bill.

The Colorado Bankers' Association actively opposed the bill, on the familiar ground that it would force good banks to pay the losses of the bad. The Democratic legislators, however, felt obliged by the party platform to pass some kind of a guaranty bill, and there was prepared and introduced what became

known as the Individual Guaranty Bill. This provided that each bank must set aside each year one per cent. of its deposits until it had so accumulated a fund equal to ten per cent. of its deposits. This fund was to be invested in bonds or warrants approved by the Bank Commissioner, and the bonds and warrants were to be delivered to the State Treasurer. In case of the insolvency of the bank, the securities were to be turned over to the receiver for the pro rata benefit of unsecured depositors. The fund could not be used to restore impaired capital. If the capital became impaired, but the banks did not become insolvent, the impairment would have to be made up by assessment on the stockholders; the so-called guaranty fund remaining intact for the benefit of depositors in case of insolvency.

The Colorado bankers felt that in this unique and interesting bill they had hit upon a good solution of the guaranty problem, by providing for the establishment of a large fund that would stand as a buffer between the depositor and the losses his bank might make on its investments. The objection to the plan would seem to be that it would require banks to invest largely in long-time securities. Colorado is industrially a comparatively new state, and has need of active working business capital. It would seem that its banks should for the present confine their investments to commercial and agricultural channels.

The Individual Guaranty Bill was strongly urged, and the legislative situation grew into a deadlock. The Legislature adjourned in April, without passing either the Mutual Guaranty Bill or the Individual Guaranty Bill.

When the Missouri Legislature convened in January, 1909, the Democrats were in control of the Senate, while the Republicans were in control of the House. Throughout the session there was much playing of politics. The Governor recently elected was Herbert S. Hadley, the first Republican Governor Missouri has had in a generation. A banking law adopted by the previous legislature went into effect January 15, 1909. This law created the office of Bank Commissioner. Until then, the state banks and trust companies of Missouri had been supervised by the Secretary of State. This office had been filled under the previous administration by John E. Swanger, a Republican, and Governor Hadley appointed Mr. Swanger to be the first Bank Commissioner, in view of his ability and experience. Mr. Swanger desired to have the banking laws of the state again revised, and caused to be introduced both in the Senate and the House a bill for the purpose. Prior to the introduction of this Bank Revision Bill, Senator Lane had introduced in the State Senate a guaranty bill along the general lines of the first Oklahoma measure. His bill, however, provided for a smaller fund; only one-fourth of one per cent. of the deposits, this to be kept up by annual assessments upon which no limit was placed. It was attached in the Senate to the Bank Revision Bill which, therefore, passed the Senate and went to the House embodying a bank guaranty scheme. In the meantime, the House had passed Mr. Swanger's Revision Bill, and sent it to the Senate. The Senate attached Senator Lane's bill to the House Bill also, and sent it to the House for concurrence in the deposit guaranty amendment. The House neither passed the Senate bill, however, nor concurred in the Senate's amendment to the House

Bill, and, as the Senate would not recede from its position, the desired revision of the banking law failed.

The Banking Department of the State of Missouri is supported by the examination fees of the banks, and an important part of the revision bill had been a very proper and necessary increase in these fees. On account of the failure of the revision law because of the legislative deadlock of the Senate and the House over the deposit guaranty question, Commissioner Swanger was confronted by the necessity of curtailing the work of his department or of raising the money outside the State Treasury. Some of the larger banks of the state are, at the Commissioner's suggestion, carrying the salary warrants issued to the Commissioner's force, and it is expected that the next Legislature will appropriate enough money to cover the deficiency.

The experiences of Missouri and Colorado with the deposit guaranty bills illustrate the intense feeling that has attended the working out of the question in the West.

Deposit Insurance by Private Corporations

It has long been possible for a depositor to procure insurance of his deposit, or for a bank to procure insurance on behalf of a particular customer (usually a public officer depositing public funds) covering in a specified amount. The rates have been ordinarily one-fourth of one per cent. per annum. Recently some of the large companies have doubled the rate. Many Oklahoma national bankers have believed that, unless Congress should authorize them to participate in the state guaranty plan, they would have to insure

their deposits in order to compete with the state banks.[1] It has been suggested that the leading surety companies might combine to issue a joint policy. Seventeen of the companies have a total capitalization of about $35,000,000, and their joint policy would be good.[2]

The organization of an insurance company in Kansas by national bankers and some state bankers has been recounted in our study of the Kansas situation. Another company is being promoted in Kansas City. It has received much encouragement from Oklahoma and, since the Circuit Court's decision of last December, from Kansas. Another is organizing in St. Louis.

Some of the companies doubt whether it is possible to write deposit insurance at all generally. If so, should the companies guarantee the repayment of all a bank's deposits, whatever they might be, or should the policies be for definite amounts? Should a policy be paid on the closing of a bank, or within a certain time thereafter, or only when liquidation had been completed? These problems are as yet unsolved.

Of course, depositors would at the outset have more confidence in a state guaranty fund than in the insurance policy of any company. Even if the state system broke down, the state would see that all losses were ultimately paid, as did New York after the collapse of the Safety Fund System.[3] If the insurance

[1] This they can do under some policy forms. Opinion of Attorney General Wickersham in Report of Comptroller of the Currency, 1909, p. 94.

[2] N. Y. Herald, May 28, 1909.

[3] It is fortunate that the Monetary Commission is to include in its publications a study of the New York experiment. [The Safety Fund Banking System in New York State from 1829 to 1866, by Dr. Robert E. Chaddock.] The only study available has been that of John Jay Knox, in his History of Banking. Mr. Knox says that the Safety Fund System failed because it covered deposits as well as notes, but the facts he sets out are not sufficient to test his conclusion. Evidently politics and fraudulent note issues played an important part.

companies were solvent and carefully administered, however, the public would soon repose confidence in them, as it does in fire insurance companies.

The companies may be expected to have a favorable loss experience. They will employ good bank examiners and select risks with care. It has been suggested that only the weaker banks would apply for insurance, but this is disproved by the experience of Kansas. Some of the strongest banks in that state were participating in the guaranty plan at the time its continuance was enjoined, altho the fund, as we have seen, was too small to appear reassuring to depositors. It may fairly be expected that strong banks would take out insurance in a company organized with large paid up capital by good business men.

The loss experience can be helped in another way. If an insurance company learns that one of its risks is in difficulty, it can often, after ascertaining the exact situation, obtain additional security from the stockholders, and put into the bank enough cash to enable it to continue business. The stockholders would almost always rather give security than let the bank close and pay the assessments that usually follow. The insurance companies would rather put in cash by way of loan than let the bank close and pay the policies. It is the intention of the organizers to take this course wherever possible.

One objection to state-administered deposit insurance has been the apparent necessity of a large degree of state control of the operation of banks. This control is exercised by limiting deposits and limiting interest payments; the objections to it will be more fully considered later. These limitations reach few of the possible elements of bad management. Insurance companies could reach many others by granting

or withholding insurance in specific cases. If deposit insurance has commercial utility, — and we have seen that in some places it has, — private corporations can furnish it satisfactorily. The restraint thus exercised by the companies would not have the injurious effects of excessive state regulations.

General Arguments and Conclusions

In the experiences of the states that in the last two years have adopted or seriously considered deposit insurance legislation, we have found strong conflicting tendencies at work. In Oklahoma, the time has been too short for definite conclusions, and in other states the experiment of deposit insurance has either not begun, or hostile litigation has obscured the results. Let us, therefore, take up the general arguments for and against the insurance of bank deposits, and consider them in the light of such facts as have been developed in the foregoing study. In the considerable volume of recent discussion on this subject,[1] the following are stated to be the chief purposes of deposit insurance: —

(1) The prevention of the individual distress that always follows a bank failure. The statistics that prove how comparatively rare bank failures are, and how infinitesimal the ultimate loss is, are not valid as a measure of the blighted ambition and the "wreck of happiness" that follow the closing of banks.

[1] Government Insurance of Bank Deposits, edited by Rollo L. Lyman (The H. W. Wilson Co., Minneapolis, 1908), contains excerpts from essays on both sides of the question. See also Guaranty of National Bank Deposits, by James B. Forgan of Chicago; Guaranty of Bank Deposits, by Prof. J. Laurence Laughlin; addresses by Charles H. Huttig, Festus J. Wade, and H. P. Hilliard of St. Louis, Andrew J. Frame of Waukesha, Ill.; and editorials in the Commoner, Lincoln, Nebraska.

(2) Another and different purpose is to prevent the embarrassment in other lines of business that has heretofore followed the closing of banks. Deposit insurance will accomplish this purpose, its advocates say, either by paying deposits immediately, or by furnishing depositors with interest-bearing certificates for the amount of their claims, the ultimate payment of these certificates being insured. Other bankers will, it is said, undoubtedly buy the certificates, or accept them as collateral for loans to business men. Assuming the insurance to be good, the writer believes that other banks would take this course. Even without insurance, banks now frequently take the business of depositors who have money tied up in failed banks, and lend on assignments of claims for the tied-up funds.

(3) Still another purpose is the prevention of financial panics, by assuring depositors of the safety of their funds. It is argued that, being so assured, depositors will not run upon the banks. It cannot be doubted that the insurance of deposits would now and then prevent a bank run. But such runs as have anything to do with general financial panics are symptoms and not causes. The causes are usually to be found in over-expansion of trade, or in untenable speculative situations, and neither of these causes can be reached by deposit insurance. The most that such insurance could do would be to mitigate the effects of a panic by assuring depositors of the ultimate safety of their deposits. Yet it would mitigate them. Tho much money would be drawn out of banks by depositors who felt that they could not afford to have their funds tied up even temporarily, a great deal would be left in the banks by depositors who would otherwise draw out their deposits in cash.

In 1907 the largest bank in the Southwest closed after a practically continuous run of more than a month. So far from losing all its deposits in those long and desperate weeks, the bank closed with half its deposits still on its books. All depositors cannot be classed together. Some are so frightened by the least rumor that nothing can satisfy them but the withdrawal of their deposits in money. Others are not frightened at all. Between these two classes is the great bulk of depositors, more or less uneasy, but reluctant to aggravate the situation by joining a run. Bankers who have observed depositors in like circumstances agree with the writer in saying that most of this great middle class would let their deposits stay if assured of ultimate safety.

(4) Deposit insurance has been advocated to prevent the closing of sound banks by runs. Sound banks, however, are not closed by runs. Now and then a bank is injured by a senseless run, but if it is thoroly sound, it does not close.

(5) Deposit insurance, if otherwise successful, will, of course, make it profitable to establish additional banks.

(6) Economically, the most important purpose of deposit insurance is to increase the use of banks by the general public. The amount of money hoarded in the United States is enormous. The well known investment of savings in Post Office Money Orders, and the heavy remittances by immigrants to foreign banks, indicate that large numbers of people fear to deposit in American banks. Again, every country banker can tell of farms paid for in his office with money damp from long burial in cellars or under refuse heaps. Every city newspaper has frequent stories of some washwoman being robbed of the

savings of years, or some mechanic whose wife forgetfully lights a fire in the old stove and burns the hidden money. Nor is it only laboring people and the ignorant who distrust all banks. The safe deposit vaults hold the money of clerks, real estate owners, and even business men, by the millions and millions. Money to the amount of $1,660,000,000 in the United States is neither in the Treasury, nor in the banks.[1] Much of it is in circulation, but a vast amount of it is hoarded. How much, one cannot even guess.

Here the Oklahoma experiment is in point. Given deposit insurance in which the people have confidence, there will be less hoarding of actual cash, and people will use banks more. The effect will be cumulative, for as people who are now ignorant of banking customs become familiar with such customs, their resort to banks for all kinds of financial business will rapidly increase, to the social good.

Let us now consider the objections.

(1) The chief objections urged against the insurance of bank deposits are that it is unnecessary and that there is only a small demand for it. The small aggregate losses to depositors in national banks since the establishment of a national banking system in 1863 are referred to in support of this argument. The average loss is variously calculated. Mr. James B. Forgan, of Chicago, has calculated it to be one-twenty-sixth of one per cent. per annum, but the writer can arrive at this result only by omitting from the calculation the losses on receiverships not finally closed, and these losses will be considerable.[2] The Comptroller of the Currency has calculated the loss to be

[1] Report of the Comptroller of the Currency, 1909, p. 62.

[2] Guaranty of National Bank Deposits, by James B. Forgan, p. 12.

about one-seventeenth of one per cent., but, while taking the total known and estimated losses on all classes of deposits, he figured his percentage on individual deposits only, not including the very considerable item of deposits by banks.[1] The writer, taking these omitted elements into consideration, estimates the average annual loss on deposits in national banks to be one-twenty-second of one per cent.

Now this loss, while infinitesimal, deters a great many people from depositing in banks, for the reason that people do not know what institutions will fail. It is suggested, of course, that such a fear is unreasonable. "Let the people pick out good banks to do business with," say the opponents of deposit insurance. But in too many cases the people cannot pick good banks. Not only in the country, but in the city, a large number of people have not and cannot get the necessary information to enable them to determine whether a given bank is good or not. A few banks stand out in their communities pre-eminent for strength and conservatism, but these cannot do all the business, and every now and then one of these very institutions fails. To say nothing of laborers and small tradesmen, even the great business man usually knows only by general reputation whether a bank is good or not. He cannot know of all of the bank's investments. Altho in touch with the affairs of the community, he is dependent on current gossip for any details he may chance to learn of those transactions that impair a bank's solvency.

The closing of any bank is a surprise to the very directors. Few of its depositors can have had any reasonable chance to learn anything about it. Whom could they have asked? The directors? They

[1] Report of the Comptroller of the Currency, 1908, p. 86.

were deceived themselves. The big business men of the city? If they had their misgivings they would not have communicated them. Did they inquire as to the general reputation of the management, the answer would be almost invariably, "reputation all right." The crash of failure comes upon the depositor almost always without his having had personal warning or any practical opportunity to obtain it. Tho there may be little active demand for bank deposit insurance (it is a novel matter anyway), it is not true that there is no need for such insurance. The advisability of giving the holder of a bank's notes protection additional to that afforded by the particular bank has long been recognized. Until comparatively recent times, the liabilities of banks were chiefly notes. Now the liabilities are chiefly book credits, — deposits. It may be time that depositors should cease to be dependent upon the fortunes of a single bank in a single place.

(2) Another question raised has already been considered; whether deposit insurance will prevent financial panics. The conclusion seems inevitable that while panics cannot be prevented, good deposit insurance would mitigate some of the effects.

(3) Another series of objections is usually stated by way of *reductio ad absurdum*. The existence of good deposit insurance being assumed, it is argued that the insurance itself would lead to impossible conditions, and that the insurance system would, therefore, break down.

The simplest form of this reasoning is that deposit insurance would make deposits in a poorly managed bank as safe as those in a well managed bank. But this is not quite true, if we are correct in believing that deposit insurance should not be paid until after

the liquidation of the assets of the insolvent bank. With such a provision in laws or policies, there would still remain a sufficient incentive to depositors to seek banks operated by careful and prudent men.

Again, it has been offered as an argument against the Oklahoma plan, that if the qualities of honesty, care, and skill would not make one bank safer and therefore more attractive for depositors than another, so enabling the possessor of these qualities to excel in banking; then honest, careful, and skillful men would go into some other business, leaving the field to men of weaker character and inferior ability. This, it is alleged, would result in such deterioration of bank management as to destroy the deposit insurance system, if not the banking system itself. But would men of integrity and strong character avoid the field of banking if the deposits of their competitors were insured? Is there no difference between banks except in safety? The incentive to good management in banking is not the mere desire to avoid failure. If the banker manages ill, his bank will pass out of existence, to his financial loss, whether its depositors are insured or not. Deposit insurance is not stockholders' insurance. Stockholders must lose all their money before depositors collect any insurance at all. With insurance in force, stockholders would need and have just as careful officers as now. The careful, skillful, and honest would still succeed; the reckless, incompetent, and criminal would fail.

It is argued, however, that liberality in loans or in interest rates would then be the chief inducement to depositors. It is supposed that much loss would result, and that, if the unwise banking methods predicted did not lead to wholesale bank failures, they would, at least, result in a great waste of capital

and a corresponding economic loss to the country. This argument has its force; there would be some waste. There has been waste in Oklahoma, some of it attributable to deposit insurance. All insurance causes waste. But good insurance prevents more than it causes. On the whole, fires are not more but less because of insurance. It is reasonable to hope, altho impossible to prophesy, that deposit insurance, by stimulating good banks and increasing their number, will lead to a higher average of management, and to less waste than at present. Failure and waste, under any proper deposit insurance system, will continue to be sporadic only, and probably not more frequent.

As deposits are created largely by loans, it has been suggested that loans might be made fraudulently, and payment of resulting deposits be required out of the insurance fund, while the loans could not be collected. The answer to this is that practically the same opportunity exists now. It can just as well be supposed that crooks would start an unguaranteed bank now, attract some deposits, purposely make some bad loans, credit the loans up as deposits, and pay the fraudulent depositors with the funds of the good depositors. It is not necessary to introduce the guaranty of bank deposits to provide bankers of criminal tendencies with opportunities to defraud. It is probably true that, once in the business, such bankers could get more deposits under a guaranty or insurance system than they could otherwise get. But where there are guaranty laws, it is probably harder for such people to get into the banking business now than before the laws were passed; and their opportunities are not sufficiently greater now than before to make it more likely that the opportunities for crime will be availed of.

It is said that insurance of bank deposits will lead to undue expansion, that the affairs of existing banks will be over-extended, and too many new ones organized. It is hard to see how insurance could over-expand existing banks, except by increasing their deposits or by inducing reckless management. As to bad management, we have seen reason to hope that, on the average, it is not more probable with insurance than without. The increase of deposits surely cannot be deplored. At times it does lead to over-expansion of credits, but this is a difficulty inherent in the credit system. As the use of credit increases, because of deposit insurance or any other factor, each expansion of credit is apt to be larger than the one before. We cannot on this account retrace our steps and reject the improvement of credit devices. It is possible that too many new banks will be organized on the adoption of a deposit insurance system. An effort to obtain part of the business of established banks has been suspected in some of the new Oklahoma and Kansas organizations. In some cases the new competition will be beneficial to the public, in others not. In every case, the organizers have supposed that the total deposits of their communities would be more than before. On the economic frontier, at least, it is highly desirable that additional banks be established, because under the American system many remote communities, where the capital necessary to establish independent banks is lacking, have gone without banking facilities altogether. The over-expansion feared is not of a character to lead to great alarm. If the new banks attract sufficient business, they will succeed. If they do not, they will gradually go out of business, or consolidate with other institutions. There is no reason to fear that they will be

the cause of a speculative mania or a general financial crash.

It is said that depositors being by hypothesis satisfied as to the safety of all banks, there would be no reason for any bank to build up a surplus, and the result would be the distribution of all profits, to the weakening of the banking system and its component parts. There is force in the argument. It seems to the writer, however, that surplus is created more to secure stockholders against possible impairment of capital and suspension of dividends than to reassure the depositors. The latter motive, of course, is present, and is a great element of safety. The office of the surplus as a buffer is, however, an important one, and is frequently the chief motive to its accumulation. With a good surplus a bank can sustain, without alarming its stockholders or cutting off their dividends, a loss that, with no surplus or a small one, might not only stop dividends but call for an assessment to repair capital.

Why stop at insuring the deposits of banks? "Why not tax all the manufacturers and merchants to pay the creditors of the unsuccessful or delinquent among them?"[1] But why not regulate the business of manufacturers and merchants as minutely as banks are regulated? Why not limit their borrowings? Why not require them to publish statements, sell only on certain terms and in certain quantities, and submit to inquisitorial visitation? The principle of protecting the creditors of banks is settled. The new method of doing so may be open to criticism, but the principle of safe-guarding depositors is not itself open to debate.

(4) As a further general argument, stress is laid on the

[1] Forgan, loc. cit., p. 29.

unfairness of taxing sound banks to pay the losses of depositors of unsound banks. Tho this consideration would have to give way to the general good if deposit insurance were otherwise desirable, the argument requires examination. The depositors of good banks do not need the insurance. At first thought it seems grossly unjust not only to raise weaker competitors to the same level of safety, but to put the expense of doing this upon the strong banks themselves. This, however, is an argument against all insurance. The honest and careful property owners, through their insurance premiums, pay the fire losses of the careless and incendiary. The strong and healthy pay the death losses of the weak. To make the argument valid, we must go farther, and establish that the deposit insurance will cause so much additional loss as to overbalance the benefits to be derived from it; and this has not been established. In fact, we have concluded that no deposit insurance could be even supposed to make all banks entirely equal in safety. And would deposit insurance be unfair to the strong banks? They would get their returns. The amount of hoarding in this country is enormous. Adequate deposit insurance will increase the deposits of even the most highly esteemed and strongest banks, and so bring them additional revenue.

(5) The next general argument is that such additional revenue would not be nearly enough to sustain the burden of insurance. The average annual loss to depositors in national banks is less than one-twentieth of one per cent., but the insurance premiums for taxes for the guaranty fund would have to be more. The loss experience might increase under the admitted tendency to unwise management, altho this tendency would be in part counteracted by the more fre-

quent examinations and stricter laws that accompany deposit insurance legislation. To the losses would have to be added the expense of management. We have seen that the surety companies have been insuring deposits in a limited way, for one-quarter or one-half of one per cent. Mr. Forgan estimates the present rate of profit on bank deposits, after allowing five per cent. for capital invested, to be three-fourths of one per cent.[1] To insure all of a bank's deposits at one-fourth of one per cent. would take too much of this profit. But if the cost could be reduced to one-tenth of one per cent., it is not so clear that the expense would be too great. Disregarding the profits that would come from additional deposits made on account of insurance, the annual profit on deposits would be reduced from 0.75% to 0.65%. This could be afforded. Or, to calculate the effect on the ratio of profits to capital and surplus, we may note that the profits of the national banks for the year ended July 1, 1909, were 8.72 per cent. of capital and surplus, not much above recent averages. An amount equal to one-tenth of one per cent. of the deposits could be deducted and still leave the profits well above eight per cent. of capital and surplus. The premium or tax of one-tenth of one per cent. is used here more as illustration than estimate. Deposit insurance would bring into play so many tendencies that previous loss experience might prove wholly unreliable.

Averages, however, do not tell the whole effect as to loss-sharing, any more than the averages of loss to depositors tell the whole effect of bank failures. While the averages seemingly indicate that going banks could afford to asume all the losses of depositors in closed banks, the cost to some of the largest, strong-

[1] Loc. cit., p. 15.

est, and most useful banks in the country would be too much. A tax of one-tenth of one per cent. would take $200,000 out of a bank that had $200,000,000 deposits; and it is the large banks in large cities that would derive the least benefit from deposit insurance. Even tho they would gain in deposits, the resulting additional revenue would probably not pay the cost.

A related objection is that the cost of insurance falls upon the bank, and not upon the beneficiary, the depositor; and, as deposits can no more be insured free than can houses, it has been argued that the whole scheme of insurance paid for by the banks is unsound. A great deal of other insurance, however, is paid for by the parties against whose defaults the insurance is written. The employee in many cases pays for the bond that guarantees his own fidelity. The contractor pays for the bond that insures the completion of his work free of mechanics' and material liens. Even banks already buy insurance covering the deposits of public funds. Perhaps the cost of the employee's bond is made up in his pay, perhaps the premium on the contract bond has already been added to the contractor's bid, and perhaps the cost of deposit insurance is eventually paid by the depositor. The fact that the bank pays it is not an objection nor even a novelty.

Of course, deposit insurance premiums must be paid out of the earnings from the deposits, but it is a question whether this means that the cost would fall upon the depositors. Many depositors receive no interest on their deposits. Most of the five thousand millions of individual deposits in national banks bear no interest. The trust companies have shown that in many cases interest on individual deposits

can be afforded. While depositors whose accounts are at interest might find the rate of interest reduced if the accounts were insured, the banks could afford themselves to pay moderate insurance on an enormous total of interest-free accounts.

The insurance of interest-free accounts is not impracticable from the point of view of its effect upon the profits of banks, but may be too expensive for certain banks if compulsory. Like many another reform or improvement of method, it will be well to let deposit insurance introduce itself gradually. This it will do if it can demonstrate its commercial utility. At present its utility in some localities seems likely to exceed its cost, in other localities not. Until the results of current experiments are clear, each bank should be allowed to determine for itself whether or not to procure insurance for its depositors.

(6) A sixth objection to deposit insurance lies against the state-administered kind only, because private insurance corporations could obviate it. This is the objection to the large single risks that must be insured. The objection would apply with considerable force even to compulsory insurance administered from Washington covering all the national banks. The state or nation cannot insure the little banks and decline the big ones. This consideration has been discussed in our study of the Oklahoma situation, and the objection still seems valid. As stated before, if state-administered insurance can be conducted with few or no great losses for a number of years, so that time can be had to accumulate a great reserve, the plan might succeed. But success would be a matter of luck.

(7) The next objection arises in part from the attempt to control the size of risks. It is, in another form,

the objection already mentioned, that state-administered deposit insurance involves too great interference with the conduct of banking. Let the reader refer again to the comparative table of legislation. It will be seen that several of the states are limiting the amount of deposits a bank can receive in proportion to its capital and surplus. Now capital and surplus are the buffers between the investments of a bank and its depositors, and it is commendable that legislators should desire capital and surplus to be adequate. It is submitted, however, that this is not a proper matter for legislative regulation. The great function of commercial banking is to aid commerce and industry by the device of credit, and if a given bank can safely do this to the extent of twenty times its capital and surplus, which it sometimes can (tho not often), why so much the better. So much more capital is left free to other uses.

Again, interest on deposits is limited by the new legislation, for fear some banks will over-expand by paying too much interest, will fail, and involve others in their loss. Some bankers of the older generation do not believe in interest on deposits at all. American banking has been hap-hazard in this regard. The $500 account has had the same treatment as one of $10,000. Gradually, however, it is becoming recognized that some accounts are worth more than the stationery and book-keeping furnished; and bankers must be left free to say what deposits are worth and what they will pay. Unwisdom in paying too much brings its own penalty. A private insurance corporation can say to a bank in eastern Kansas, "in view of the richness of your community and the low rates obtainable on loans, it is unwise for you to pay four per cent. on your deposits, and if you do we

cannot insure them." At the same time the company may be glad to see one of its risks in western Kansas increasing its business by paying four per cent. This is the beneficial "higgling of the market," while the fixing of the price of deposits by legislation would impair enterprise and interfere in some degree with economic development.

The other social objection, that it is not wise to exempt individuals from the consequences of their mistakes, has no weight, because it is in so many cases not applicable to the selection of a depositary. The presumption is always in favor of the bank under consideration, because the state or nation is allowing it to run. General reputation is usually the only guide for the intending depositor. He must deposit somewhere, or ought to, and no social purpose is served by putting upon him the consequences of a mistake he had no means of avoiding.

The immediate future of deposit insurance depends much upon the result of pending litigation. If the guaranty laws are upheld, the state guaranty systems will be used for a time. It may be that in spite of the large single risks, and the tendency to unwise liberality in bank management, the state guaranty funds will grow large enough to assure the success of the experiments. In that case, some national banks will probably begin to insure their depositors. If the laws are held unconstitutional, there will probably be a good deal of insurance of deposits in private companies on account of banks in Oklahoma and perhaps elsewhere. The deposits of Oklahoma banks increased so rapidly under state insurance that they are not likely to discontinue insurance altogether if they can find companies to write it.

The laws will all need amendment. The Oklahoma fund is not accumulated rapidly enough and the Kansas fund is too small. Kansas does not insure the deposits made by banks, altho these should be insured as much as any, because they are the reserve of the depositing banks and much depends on such deposits. Oklahoma must abandon the effort to pay depositors as soon as a bank is closed. This is not the place, however, for proposals of legislative changes.

In the end, we come back to the question of the need of the insurance. Hoarding and distrust of banks are found to some extent everywhere in this country. Deposit insurance would call out most of the hoards and remove most of the distrust. Oklahomans are typical Americans, and they swelled the deposits of their banks as soon as the deposits were insured; while large amounts of deposits came from Americans in other states.

This has been a remarkable economic experiment, projected in time of panic, taken up as a national political issue, and carried on under the fire of hostile litigation. If successful, it would serve high social purposes, and the objections to the state control involved might be waived if they did not interfere with success, and if there were no better way to achieve the great purposes in view. Politics can be eliminated. Compulsory, state-administered insurance of deposits has not been proved impracticable, altho the resulting tendency to uncareful management, the expense and perhaps unfairness to sound banks, and the impossibility of selecting the risks must cause misgiving. These objections almost all disappear in the consideration of insurance by private corporations. Such insurance may prove the ultimate solution of the problem.

It must not be thought, however, that the introduction of private insurance, as distinguished from that administered by the state, will be rapid. It will be slow. The benefit to many banks would be small, and others will take it up most gradually. Bankers are the most conservative of men. They know that their banks are good, and many will feel insulted when solicited to insure their depositors against loss. But, if the limited observations here set down are valid over a wide area, and the writer believes they are, it will gradually and beneficially become the custom to insure bank deposits.

Thornton Cooke.

Fidelity Trust Company,
Kansas City, Mo.

APPENDIX — CERTAIN ITEMS IN RECENT BANK STATEMENTS[1]

	OKLAHOMA[2]	KANSAS	TEXAS	SOUTH DAKOTA[2]	NEBRASKA[2]
STATE BANKS	Nov. 16, '09	Sept. 29, '09	Nov. 16, '09	Nov. 16, '09	Nov. 16, '09
Number of banks	662	State 812 Private 4 Trust Co. 3 Total 819	State 450 Trust Co. 52 Total 502	474	662
Capital	10,767,800	15,810,800	16,114,000	6,316,275	12,027,240
Surplus	881,340	4,957,936	1,475,960	972,942	2,115,977
Due to banks	4,537,080 }	97,217,510 (Due to banks and Individual deposits)	{ 6,541,580	2,590,551 }	73,283,626 (Due to banks and Individual deposits)
Individual deposits	49,775,433 }		{ 43,328,797	49,557,408 }	
Due from banks	20,659,289 }	36,528,127 (Due from banks and Cash in bank)	{ 18,051,023	14,497,871	15,075,686
Cash in bank	4,607,348 }		{ 5,324,673	2,722,583	4,452,424
NATIONAL BANKS	Nov. 16, '09	Nov. 16, '09	Nov. 16, '09	Nov. 16, '09	Nov. 16, '09
Number of banks	220	206	519	95	220
Capital	10,070,000	11,992,500	42,393,300	3,740,000	14,395,000
Surplus	2,674,142	4,887,573	19,551,996	747,450	5,600,960
Due to banks	8,263,308	16,691,222	38,744,096	5,295,688	28,948,348
Individual deposits	41,617,229	67,094,340	164,618,078	28,631,498	82,784,953
U. S. deposits	765,831	651,519	1,137,333	545,459	1,044,760
Due from banks	16,657,396	21,179,768	59,693,840	8,238,287	25,551,358
Cash in bank	4,968,818	7,780,867	22,314,188	2,747,068	10,615,642

[1] The banking departments of the different states do not compile their reports in quite the same way, and the amounts given above as "due from banks" and as "individual deposits" do not in all cases include quite the same items. The differences, however, are immaterial.

[2] All banks other than national.

CO-OPERATIVE MARKETING OF CALIFORNIA FRESH FRUIT

SUMMARY

Fruit shipments from California began with opening of railroad communication, 393. — Little profit because of high rates, slow trains, and speculative activity resulting in over-production, 396. — Co-operative association proposed by railroad, 399. — "California Fruit Union," — a temporary success, 400. — Freight rates and icing charges, 402. — "California Fruit Growers' and Shippers' Association," — a brief success, 404. — "California Fruit Distributors," — a success, 405. — "California (Fresh) Fruit Exchange," — another success, 407. — The refrigerator car question in California, 409. — Net result of co-operative activity, 415.

I

California has been called "the orchard of the United States," and the returns of the Federal census show that the title is accurately descriptive. This single state in 1899 produced twenty-one and a half per cent. of the fruit of the entire country; or expresesd in dollars, $28,000,000 out of a total of $131,000,000. Its record in orchard fruits was $14,000,000 out of $83,000,000; in grapes, $5,000,000 out of $14,000,000; and in citrus fruits, $7,000,000 out of $8,000,000. New York held second place with twelve per cent., and Pennsylvania stood third with a percentage of seven and a half. California easily ranked first in the production of deciduous fruits, leading in peaches, pears, plums and prunes, and table grapes, and standing second in cherries. These figures are now old; but it is unlikely that at the next census the pre-eminence of California as a fruit state will be lost or even jeopardized.

But a large output of any product of itself may signify little in a commercial sense. Commercial production of fresh fruit is largely dependent upon two factors, — nearness to market and early maturity. New Jersey, Delaware, and Maryland owe their prominence as fruit states to their proximity to large centers of consumption; and Georgia, Florida, and Texas are so favored by nature that they can dispose of their crops at a season when most of the fruit elsewhere is still green on the trees. Yet when rated according to output these states stand low. New Jersey ranks eighth; Maryland, fourteenth; Texas, twentieth; Florida, twenty-second; Georgia, twenty-ninth; and Delaware, thirtieth. California's supremacy in both size and importance of output is due to its rich soil and mild climate, which make possible an early yield and good quality; and to its extensive area, which assures not only a surplus over local demand, but also a great variety throughout the year.

To raise fruit involves no small amount of labor and risk even where transportation is not a source of great difficulty. When the orchard is two thousand and even three thousand miles from market, the grower is confronted not only with the danger of frost, the ravages of insects, and the competition of fruit from other localities, but also with the problem of getting the fruit to the consumer at an expense which will allow a fair return for his outlay of capital and effort. It is the purpose of this paper to trace the development of a single phase of the fruit industry of California — the distribution of its green deciduous fruits in Eastern markets. It will be of interest first to outline the growth of fruit raising in the state from the beginning to the time when the opening of railroad

communication with the East made commercial production possible.

The Spanish padres were the first fruit growers in California. But altho they had orchards at most of their missions, they were beyond the range of any market. Next were the Russians, who had an orchard at Fort Ross, Sonoma County, as early as 1812. By 1830 some serious attention was given to fruit raising in this county of Sonoma, and in the early forties the planting of fruit trees was begun in Los Angeles and Yolo counties. But like everything else in the state, the fruit industry may be said to date from the American occupation. With the gold rush came a demand for all varieties of food products, and prices of fruit soared to heights untouched before or since. A pound of fresh fruit would sell above fifty cents, and often as high as a dollar; and we are told of one instance when peaches were sold at Sacramento for two dollars apiece. Apples were first brought from South America in 1851, and sold at fifty and seventy-five cents a pound. Such prices naturally stimulated production. Orchards were started in Oregon to supply the California market, and beginning about 1855 attention was drawn toward the fruit-growing possibilities of the soil of California. Trees were obtained from Oregon and from the East, and set out, first along the river bottoms and on the desirable lands near the coast, and afterwards in the foothills and even in the higher altitudes. In a short time the output was far in excess of local needs, and prices sagged accordingly. But the state still depended upon the East for dried fruit. In 1863 Governor Stanford in an address before the State Agricultural Society at Sacramento went so far as to advise that the legislature should offer "liberal premiums for the first hundred barrels

of dried apples and for the first hundred half barrels of dried peaches or plums so packed as to keep through a California season." [1]

Dried fruits were imported as late as 1869. Before that date some shipments were made in the opposite direction, but on account of the high wages on the Pacific Coast and the difference in exchange between California gold and Eastern greenbacks, such ventures could not be made at a profit.

The possibility of shipping fresh fruit to Eastern markets now became uppermost in the minds of the growers, who had already demonstrated that in most parts of the state fruits ripened several weeks earlier than in the East, and that the California product was superior both in size and in richness of color. This gave promise of better conditions as soon as the opening of the railroad to the Atlantic states should make possible direct and rapid communication with their markets.

II

The last spike on the Pacific railroad was driven in May, 1869, and within the year fruit to the amount of 300 tons was shipped to the East where it brought fair prices. Pears in good condition sold at fifteen cents a pound, and fancy grapes, at thirty cents, but freight charges were so high — $1,350 per car to Chicago — that none but the better class of buyers could be reached. These early shipments were made by a few large growers who were able to take great risks. As the fruit became more generally known, shipping houses were established to handle the output of the

[1] State Agricultural Society, Transactions, 1863, p. 48. The suggestion was not adopted. The legislature had already passed "an act for the encouragement of agriculture and manufactures," (Statutes of 1862, chap. 302), but this was repealed after a few years.

smaller growers. Gradually the quality of the fruit was improved, new varieties were introduced, and better methods of handling and packing devised. But for fifteen years after the first Eastern shipments the fruit industry was regarded as of only secondary importance, and not to be compared with the raising of wheat or cattle. The railroads were inadequately equipped for carrying the fruit, and with the utmost care in selection only the hardiest varieties, such as pears, grapes, and Gross prunes could be profitably shipped. This was because the sole cars available were common cattle and box cars, hauled only on slow trains.

Nine hundred tons of green deciduous fruit were shipped East in 1871 at an "average line" rate of $3.38 per hundred pounds.[1] In 1874 with the rate at $2.50, shipments amounted to 2500 tons, but the next year with the same rate only 1450 tons were shipped. The rate by 1884 had fallen to $1.50, and the shipments reached a total of 5998 tons.

Beginning in the early eighties something of the possibilities of the fruit industry came to be more widely understood, and there began a general rush to buy fruit lands which, obtained at low prices and planted on credit, would insure a competence for life. Not only were country people concerned in this boom, but, when prices had considerably advanced, clerks and small tradesmen, and even school teachers sought to put their savings into an industry of which they knew nothing except its promise of large returns. With the increased output which resulted from this movement, it became evident that production was a simpler matter than sale at prices which would cover

[1] This rate was obtained by dividing the total freight charge to points on the Missouri and Mississippi rivers by the number of hundred pounds shipped during the season.

expenses and interest charges on land bought at speculative prices. It was found, also, that the exaggerated statements of the profits of fruit raising in California had led people in other states to enter so promising an industry, and in consequence many sections of the country to which California had looked for prospective buyers would soon be in the market as competitors.

With the exception of the earliest shipments, the fruit was purchased outright from the growers by dealers who forwarded it to the Eastern cities, where it was disposed of at private sale. But as the shipments increased, prices fell, for the Eastern jobbers were fully informed of the promise of a steadily increasing output, and they were naturally disposed to hold off for a lower level of prices. In consequence the shippers became each year less inclined to buy outright from the growers, but they were willing to handle the fruit on a commission basis, making whatever cash advances were necessary on the security of the growing crops. The growers were without option in the matter, for they were not prepared to assume risks which were too great for those who were in touch with all conditions affecting the fruit industry. In California, as elsewhere, the commission business has been the medium for a tremendous amount of sharp dealing, and it was not long before the growers came to condemn all who were concerned with the marketing of their fruit. Even the most reliable houses, however, at times found it impossible to make favorable reports upon their consignments. The bulk of the fruit was sent to the large cities, and when, as frequently happened, their markets were oversupplied, sales were made at a loss. On a falling market, when shippers had advanced money on the fruit,

they would not hesitate to sell at any figure which would enable them to recover.

The time made by regular freight trains was so slow and uncertain that most shipments of fruit came to be made on passenger trains; but altho the rate of $800 per carload to Chicago was almost prohibitive, it was not until the beginning of 1885 that a reduction to $600 was made. Whatever the rate or mode of shipment, charges had to be guaranteed; and when a consignment failed, the grower suffered a double loss. And there seemed little hope of relief, for it was evident that production had outstripped the facilities and methods of marketing.

When in 1881 the fruit men had assembled in the first of a series of annual state conventions, two great obstacles to the profitable marketing of fruit were pointed out. One was, of course, excessive freight charges; the other, want of care and honesty in selection and packing.[1] No remedy was suggested, however. The question of freight rates was again taken up at the convention of 1884, and after some lively debate a committee was delegated to confer with the management of the Central Pacific railroad. It was generally agreed that a moderate reduction would afford the needed relief, and that it was necessary to impress the railroad officials with the idea that their interests and those of the growers were mutual. It was very generally agreed, also, that such action had been too long delayed, for up to that time no business-like approach had ever been made to the railroad, nor had any been suggested. But there were some who pointed out that a conference could bring no relief because the railroad would require an agreement that a specific number of carloads

[1] State Horticultural Commission, Report, 1881, p. 59.

should be offered for shipment daily, — a condition which the growers were not prepared to meet. One speaker, with singular lack of the prophetic sense, ridiculed the idea that any committee would ever be able to exercise control over the shipments of individuals.[1]

As had been predicted, when in 1885 the committee petitioned for relief it was asked to give a guarantee that a definite quantity of fruit should be regularly turned over to the railroad. To that end President Stanford suggested that the fruit men should unite in an organization which might make the required agreements. He offered if this were done to put on a special train of fifteen ventilator cars which should run to Chicago on a fast schedule at a rate of $4500 for each train. These trains, he said, could be run on alternate days if there should be insufficient fruit for a daily service, but he insisted that there could be no special service without a contract with some responsible association. Here was not only an opportunity for better service and lower rates, but through the organization which would be required to obtain them, control might be exercised over individuals in the matter of selection and packing of the fruit. Having failed to profit singly the growers were now forced to come together, and it is noteworthy that the first active suggestion in this direction was made by the head of the transportation interests with which they have been in almost constant contention.

A reduction in fruit rates on ordinary freight trains was announced at about this time. Hitherto the rate to Chicago had been $400 per car; it was now made $200. The rate for fruit hauled on passenger

[1] State Board of Horticulture, Report, 1883–4, pp. 62–68.

trains had already been reduced at the beginning of the season of 1885, and further reductions were refused on the ground that this was a sort of traffic which should be discouraged.

III

The "California Fruit Union" was incorporated in November, 1885, with a nominal capital of $250,000 in shares of one dollar each. The organization was based upon a plan of acreage representation, under which each member was privileged to subscribe for one share for each acre of bearing orchard in his possession. None but growers were therefore eligible to membership. Control was vested in a board of trustees whose function it was to market the fruit of members upon the consignment plan at the regular commission of ten per cent., and to distribute the surplus at the end of each year. The leaders in the movement hoped to attract to the organization the growers of the entire state, and with the power that unified control would give, so route the fruit that one consignment might not compete with another. The citrus fruit growers, however, were never attracted to membership, and it was only after much argument that the five local co-operative associations of deciduous growers already in the state were induced to merge with the Union.[1]

At the end of the first year the new organization could not be called a success. Membership had grown slowly, for while all growers professed sympathy with the Union, many were unwilling to assume any responsibility. Much fruit was still shipped through commission merchants and sold in competition with

[1] Ibid., 1885–6, pp. 78–90.

the consignments of the Union. There were also many unforeseen difficulties of the sort which are incidental to the starting of every organization. The special trains afforded no relief, for the Union was never able to assemble more than nine cars at any one time. Shipments upon passenger trains were therefore continued. To remedy this condition, the railroad in 1887 reduced to ten the minimum number of cars required, and established a new rate of $4000 per train. The outside shippers controlled over half the fruit of the state, and while the Union stood willing to handle shipments of non-members for a commission of five per cent., the shippers considered this rate excessive. They therefore united in an independent association, which had the sole function of assembling cars to take advantage of the special train service. The members of this association had no agreement as to prices. Each sold as he saw fit, and competed freely with the others. Thus the benefit of the special service, for the enjoyment of which the Union had been organized, accrued not to the Union, but to the outside shippers.

At the fruit growers' convention of 1886 the affairs of the Union were discussed with great thoroness. It was generally admitted that a year's experience had been sufficient to show that no organization could control all shipments from the state on the consignment plan. While there were many growers who were prepared to ship all their fruit in this manner, and wait an indefinite time for returns, there were others who whether from necessity or choice preferred to sell at a fixed price, leaving to the shipper the risk of marketing. As the only way to eliminate the competition of the fruit of this large class of growers, the Union now invited the shippers to membership.

The invitation to the shippers to enroll in the Union was without result, for the shippers saw that they did not need the Union so much as the Union needed them. An effort was made to force them into the organization by inducing the members to agree not to sell to outsiders any fruit intended for Eastern markets, but this only served as an incentive to dishonesty.

There never was a time when the Union controlled so much as half of the fresh fruit output of the state. By an agreement with the Earl Fruit Company in 1887 it was able to have a voice in the routing of about ninety per cent. of the shipments; but internal dissensions were never quiet, and this advantage could not be retained. For a year or two the Union appeared to have the support of a majority of the growers, but membership began to drop off, and among those who early quit the organization were some of the leading fruit men in the state.

As for the railroads, their special service was gradually improved, and the time was fairly satisfactory; but only the hardy varieties of fruit could be shipped until 1888, when refrigerator cars were introduced. These cars were owned and operated by private firms which charged rates which varied with the distance and the season. To Chicago the rates ranged from \$185 to \$245 per car, and this was in addition to the regular charge for hauling. Except at the very beginning, both of these charges were collected by the railroad officials. In 1891 the railroads effected a general increase in freight rates by withdrawing the distance tariff to points in Western territory, and imposing a "blanket" rate of \$300 per car. This was the old Chicago rate; and the change was justified upon the ground that markets west of this city

were beyond the range of fruit from the Southern states, and could therefore bear proportionately heavier charges. In this period of readjustment the refrigerator rate was fixed at $125 a car to Chicago, and proportionately to points farther east. The total charge now became: to Chicago and other Western points, $425; to New York, $535; and to Boston, $549.40.

With the growers in financial distress, it was to be expected that criticism of the Union should become general. The shipping houses were eager to increase this feeling of discontent, and zealously spread abroad the charge that the Union was nothing but a private shipping organization controlled by a few large growers, who with the Eastern agents took all the profits. It was not long before the growers were selling their fruit for cash wherever they could find a purchaser, regardless of their obligations as members of the Union. By 1893 the Union had fallen to the rank of a local organization, and in 1894 operations were suspended.

IV

The matter of proper methods of marketing remained a problem, and all admitted that the fruit was poorly distributed throughout the East. Different lots frequently met in the same market to the destruction of all profits, and because of this fact the growers in California were unable to obtain fair profits even in 1894 when the Eastern fruit crop was a failure. In that year (1894) the California Fruit Exchange had been incorporated, with somewhat ambitious plans for a federation of local associations and for limitation of shipments; but it came to nothing, for virtually no subscriptions to its capital

stock came in.[1] At the same time, a movement was started toward the establishment of an organization which should confine its activities to the work of marketing. The result was the organization of the "California Fruit Growers' and Shippers' Association."[1] Intelligent distribution was now to be made possible through the publication of a daily bulletin containing a statement of all consignments of fruit, the contents and destination of each car, and the probable time of arrival. Shippers could thus avoid sending their fruits to markets which were already provided for. Each one, however, could still keep the knowledge of his shipments to himself, for it was unnecessary for the railroad in issuing its statement to give the names of consignors.

The Association was a success for a few years. Its effectiveness then decreased as some of the shrewder ones among its members devised a plan by which they might defeat the purpose of the organization while keeping within the letter of its rules. The method was simplicity itself. A shipper desirous of getting ahead of rival houses would bill all his cars to a nominal destination, and as soon as the fruit was en route and the bulletin published, he would divert his consignment to other points. As there was no published record of diversions, this practice made control of distribution impossible. Another demoralizing practice was due to the habit of shippers of depending too implicitly upon their Eastern agents for instructions in the matter of choosing a market. Whenever an agent reported good prices in his city, fruit would immediately be diverted to that point, and as all agents were about equally supplied with

[1] See State Board of Horticulture, Report 1893–94, pp. 28–35; also E. F. Adams, The Modern Farmer, pp. 498–504.

news of market conditions, their instructions were practically identical. Hence as soon as favorable reports came from any city, fruit was rushed to that point and the market overstocked. Such conditions emphasized the need for an organization which should have full power over the matter of diversions. To this end the "California Fruit Distributors" succeeded to the Association in 1902.

V

The Distributors' organization is a league of shipping interests which handles no fruit on its own account, but acts as a clearing house for the consignments of its members. Its membership includes not only the commercial shippers, but also large individual growers who ship on their own account. When a shipper loads a car he indorses the bill of lading in favor of the Distributors, and sends it to the central office at Sacramento. At this office is kept a detailed record of fruit in transit and all available information upon market conditions in each large Eastern city. The management is accordingly able to decide whether the fruit shall go as billed, or be diverted to some point where the market gives promise of a better demand for fruit of that particular variety, quality, and degree of ripeness. In the same way, it can pass upon the diversions which a shipper may desire.

About sixty per cent. of the fruit controlled by the Distributors is handled in this manner, and sold in the auction markets of the East. The rest is disposed of by means of f.o.b. shipments in carload lots. This plan was devised by the Distributors to put an end to uncontrolled consignments, so far as it should

be possible. By this method a shipper consigns fruit to his agent, or directly to the buyer, and makes a draft upon the bill of lading for its value. A uniform price is fixed in California, and under no circumstances can this price be reduced on fruit leaving the state on any one day. In this way it is possible for shippers to count with certainty upon their returns, and buyers may have the assurance that they are receiving impartial treatment. The system has not always worked successfully, however, for f.o.b. shippers have in many instances worked injury to those who sell through the auction houses.

It must not be supposed that because of their membership in a large central organization, the shippers belonging to the Distributors enjoy a monopoly of the business of supplying Eastern markets with California fresh fruit. There are several large independent houses in the state, and a large part of the fruit carried over the Santa Fé comes from such shippers.

Distribution would be a comparatively simple matter if the time of transit were a constant factor, but it is now necessary to discount the scheduled time of arrival, and to base diversions largely upon guesswork. Ever since fruit has been shipped out of the state there have been complaints of the slow and irregular time made by the railroads. At rare intervals cars have gone through to Chicago in six days, but the average for any season would be nearer twelve. Yet next to passenger trains, fruit trains are given preferred service upon all Western roads. At various times the growers in convention have asked the Southern Pacific to agree to a definite schedule for an entire season, and to return a portion of the charge whenever this schedule is not kept. This is asking a privilege that is not enjoyed by any variety of traffic,

not even by passengers. If granted the carrier would assume the greatest risks in the fruit business. It is obvious that much may happen on a two thousand mile haul to disarrange the best planned schedule.

Time of transit is intimately connected with the quality of the fruit, for with quicker service the fruit could be left longer on the trees to acquire more of the flavor of maturity than is possible under present conditions. If it were not for the excellent carrying qualities of California fruit, and for the fact that it is packed in better shape than almost any other fruit in the world, it would meet with much less favor in the markets of the East. Fast time is more to be desired than low freight rates, and now that the private car question has been disposed of by congress, the energies of the growers may be concentrated in an effort to obtain it. With the great amount of betterment work done upon the Pacific lines within the last few years it is reasonable to expect that better service will come, for fruit traffic constitutes no small proportion of the business of the freight moving eastward over those lines, and it is the eastbound traffic which they are striving to encourage.

VI

The fruit growers' convention of 1899 appointed a committee to consider the advisability of organizing a co-operative association which might take over some of the functions of the Union which had not been assumed by the Fruit Growers' and Shippers' Association. After two years of investigation this committee reported in favor of the plan. Altho the season of 1901 was then well advanced, the "California Fresh Fruit Exchange" was organized, and

local associations were formed in the fruit shipping centers, chiefly in Placer County.

The new organization enrolled as members, individual growers and shippers, and representatives of local associations. These local exchanges were organized wherever enough growers could be got together to insure the shipping of a carload of fruit as often as every other day. When a car was loaded by one of these exchanges the central office determined its destination, and looked after its sale. No single method of sale was followed, but from the first the business was conducted on a cash basis. The usual rate of commission — seven per cent. — was charged, and the surplus was divided at the end of each year in the proportion which each member's consignments bore to the total business of the season. This method has been followed to the present time, except that in 1907 the Exchange was reorganized on a stock basis in order to make possible what was thought a more equitable distribution of profits.

From the first the Exchange has advanced money upon crop mortgages, for its managers have taken the stand that the experience of the Union demonstrated the necessity for this practice if members are to be retained. In this and in other particulars they have shown an appreciation of the fact that to survive in a competitive business a co-operative organization needs all the elasticity of a private concern. The Exchange has therefore been a success; and its growth has been continuous until it now ranks as the third largest shipper of fresh fruit in the state. During the first two years following its organization, the Exchange conducted its sales through the agencies of the Southern California Fruit Exchange. In 1903 when the Distributors succeeded to the Fruit Grow-

ers' and Shippers' Association, the managers of the Exchange at first regarded the move as evidence of hostile intentions on the part of the allied shipping houses, but this fear was soon dispelled, and the Exchange has since been enrolled as a member of the Distributors.

VII

The Pacific Fruit Express Company, a subsidiary of the Union Pacific, assumed the refrigerator business upon the Harriman lines late in 1907 as the result of the changes effected in the interstate commerce law by the legislation of the preceding year. The enactment of the Hepburn bill has therefore removed the greatest obstacle in the way of profitable marketing of California fruit, — the private car. The private car question has meant a different thing to different persons and to different sections of the country. To the traffic managers of the railroads it has widened out into the refrigerator car question, the stock car question, and the tank car question. To the consumers of meat products, the question has been intimately concerned with the cost of living. To the fruit grower it has been the vital factor in the marketing of a highly perishable commodity which is classed as a luxury.

The refrigerator car was perfected in the late seventies, and after several years of use in the meat trade it was employed in carrying fresh fruit, first in Michigan and, beginning in 1888, in California. In the early years of refrigerator shipments from California a number of companies shared in the business, but under stress of competition for favorable terms with the carriers on the one hand and with the big shippers on the other, the number was gradually reduced.

Except for a few years when the charge for this service varied with the season and distance, the icing rates to Chicago were: from Sacramento and points east, $125; from points on the Central Pacific west of Sacramento, $140; from Fresno and points south and Marysville and points north, $150. An additional charge of $25 was exacted for cars running on passenger time. To New York the rates were $50 higher than to Chicago. The bulk of refrigerator traffic was for several years hauled upon passenger trains, and so was forced to pay the extra charge.

Railroad officials were at first disposed to defend these charges, but whether to divert some of the wrath of the growers from themselves to the refrigerator companies, or for other reasons, they finally reversed their attitude. In 1896 Vice-President John C. Stubbs of the Southern Pacific Company admitted that these rates were excessive, and that they afforded a profit out of all proportion to the capital involved, or to the nature of the service. He said that because the cars were hauled empty west-bound, and also because of their excessive weight, "the Southern Pacific Company pays no rental for their use and charges the refrigerator car companies 25 per cent. in addition to its share of the through freight. . . . This amounts to $11\frac{3}{4}$ cents per 100 pounds for the Chicago destination."[1] In 1901, however, Mr. Stubbs' testimony before the Industrial Commission showed that a new arrangement was in effect which was much more favorable to the owners of these cars. "The ordinary rate paid by Eastern roads is a cent a mile," said Mr. Stubbs. "It ranges from three-fourths of a cent to one cent, for the use of refrigerating cars; but we pay less."[2] The rate paid

[1] Board of Railroad Commissioners, Report, 1895–96, p. 74.

[2] Report of the Industrial Commission, IX, p. 769.

by the Southern Pacific and by the Santa Fé at that time was three-fourths of a cent per mile, but neither paid any mileage upon empty returning cars. In this sense the rate paid was less, as Mr. Stubbs testified. It was later reduced to three-fifths of a cent per mile.[1] East of Ogden, Albuquerque, and El Paso, and west of the Mississippi, and also upon the Chicago-Boston route via Montreal, the rate was one cent a mile. Elsewhere it was three-fourths of a cent, regardless of whether the cars were loaded or not.

By 1898 the number of refrigerator car lines handling California fruit had been reduced to three, and of these the Fruit Growers' Express, an Armour line, and the Continental Fruit Express, controlled by Mr. Edwin T. Earl of the Earl Fruit Company, did practically all the business. The Southern Pacific then announced that it had "yielded to the verdict of the growers," and engaged from these two companies all the refrigerator cars needed for the deciduous fruit traffic. In justification of this act the officials claimed that they needed to be assured that cars would always be available, and that facilities for icing would be maintained; furthermore, they declared that for them to accept cars from any companies which might choose to offer them would result in endless confusion.

This arrangement placed these two lines in absolute control. The fruit men at once protested against the unfair advantage which was given to the Earl Fruit Company by this contract, and Mr. Stubbs has since admitted its injustice.[2] The agitation became so strong that in about a year the Continental Fruit Express was sold to Armour, though it was still operated as an independent line. The effect of this

[1] 10 I. C. C. Rep. p. 608. [2] 9 I. C. C. Rep. p. 197.

transaction, however, was negatived by another transaction which took place at the same time, but which was not publicly announced, — the sale of the Earl Fruit Company to Armour. For a time the fruit growers were in the dark as to what had taken place, but it was not long before they recognized that conditions were unchanged, though they could only suspect that Armour had an interest in the fruit business. In 1904 after he had disposed of his interest in the Earl Fruit Company, Mr. Armour admitted that he had purchased the fruit company and the express company from Mr. Earl at the same time.[1]

In the meantime, refrigerator charges had been reduced. From Sacramento and other California common points to Chicago the rate was now $80 per car; from all other California points, $100 per car. The New York rate was $20 higher than the Chicago rate.

The Santa Fé in 1904 first attempted to compete with the Southern Pacific for the California fresh fruit traffic. It erected warehouses at Antioch on the San Joaquin River, near its confluence with the Sacramento, and by means of steamboats assembled fruit for shipment in the cars of the Santa Fé Refrigerator Despatch Company. This company is a subsidiary of the railroad, but it is independently operated. It does not own any cars, but leases them from the railroad company for a percentage on their cost with an additional charge for operation and repairs. Like the other refrigerator lines it has received the regular mileage rates from the railroads over which it has operated.

In 1904 Mr. James Watson, who had been president of the Porter Brothers Company until its failure

[1] I. C. C. In the matter of the transportation of freights by common carriers in cars not owned by said common carriers, p. 50.

in 1903, testified before the Interstate Commerce Commission that since 1896 he as an individual had leased cars from the Fruit Growers' Express at rates much less than the published tariff, and rented them at the full rate to the Porter Brothers Company, and to the six large shipping houses with which this company was affiliated. In addition to his profits from this arrangement, he also received occasional rebates from the carriers until 1900. Altogether his gains from a year's business amounted to as much as $50,000. Mr. George B. Robins, vice-president of the Armour car lines, testified that the published refrigerator tariffs on California business represented the maximum charge, which was collected only under exceptional circumstances. Bills were introduced which showed that when the published rates from Sacramento to Chicago had been $80, the actual rates in some instances were as low as $10.32, — the difference having been returned to Watson as a rebate. At this hearing, also, Mr. J. S. Leeds, manager of the Santa Fé refrigerator line, testified that when he had attempted to obtain shipments of deciduous fruit from northern California he found that the Armour lines were rebating from $25 to $30 a car on the refrigerator charges, and that altho he gave the same rebates he was unable to make arrangements with any of the members of the California Fruit Distributors except the California Fruit Exchange.

It was the decision of the Interstate Commerce Commission in several cases under the old law that the furnishing of refrigeration was a part of transportation, and that when the carriers compelled shippers to pay such charges as were fixed by the car lines or do without the necessary service, these charges constituted an integral part of the cost of transpor-

tation and so became subject to the authority of the Commission.[1] The railroads, however, contended that refrigeration was a special service, and that a special and distinct charge was therefore proper. The new rate law has made unnecessary the judicial determination of this question by specifically providing that railroad companies must furnish proper equipment for the transportation of the traffic offered. The Commission now has full authority over the refrigerator service, for the law makes the refrigerator rate a part of the rate for transportation.

Refrigerator charges in the season of 1906 were reduced as the result of an agreement between the Santa Fé and Armour car lines. From Sacramento, Stockton, and Fresno to Chicago a rate of $70 was established, and the rate from other points was fixed at $82.50. This agreement provided that no rebates or special concessions should be granted. Beginning in June, 1907, a reduction in freight rates was also announced. This was the result of several years of negotiation between the Distributors and the Southern Pacific Company. The Distributors had sought a "postage stamp" or "blanket" rate of $1.25 per 100 pounds to all points east of Chicago. This was not granted, but the rate to Chicago was reduced from $1.25 to $1.15, and other reductions were made as follows: to Cincinnati, Detroit, Buffalo, and Cleveland, from $1.50 to $1.40; to New York, Philadelphia, and Baltimore, from $1.50 to $1.45; to Boston, from $1.56 to $1.45.

Within a few years experiments have been made by experts connected with the department of agriculture which have shown that fruit as ordinarily loaded into refrigerator cars does not become tho-

[1] 12 I. C. C. Rep. p. 615.

roughly cooled until it is far along the route to market. Meanwhile the process of decay is going on. Tests have been made to determine the effect of thoroughly chilling the fruit before shipment, and it has been found that decay is thereby reduced to a minimum. "Pre-cooling" plants have therefore been established at the principal fruit shipping points in California, and at a moderate cost the temperature of the fruit can now be reduced within a few hours to a point which will effectually prevent change of condition. It will now be possible for the California grower to allow his fruit to remain longer on the trees to acquire that flavor in which it has hitherto been deficient, and the result must be an increased demand. With reduced rates and promise of better service, the California fresh fruit industry may be said to have a promising outlook.

VIII

In the literature of co-operation there is much of co-operative production and more of co-operative distribution, or better, "consumers'" co-operation, but little or nothing of co-operative marketing. Yet co-operative activity in the California fruit trade has concerned itself only incidentally with co-operative buying, and not at all with collective production, but most of all with the final sale of an output individually produced. The California Fruit Union was seized upon as a last resort by the growers because it promised a means of escape from the intolerable conditions resulting from an oversupply of product, and a large prospective demand on the other edge of the continent, together with inadequate facilities for transportation, and primitive methods of marketing. Its organizers had little thought of brotherly obligation

but much of common distress, and their motive was not so much gain as escape from absolute loss. The men chosen to manage its affairs knew little of the principles of co-operation, and their methods furnish sufficient evidence that their executive ability was below the standards of ordinary business. The Union was organized as a free democracy, and its management was controlled by the minority of members who were willing to sacrifice time to attend important meetings. At the first occasion for criticism those who had neglected to keep themselves informed of the details of the business were the first to desert the Union and deal with the commission houses. As the average grower went into the Union to better himself, so he left it when it seemed to his interest to do so. It is idle to speculate upon what this organization might have accomplished had it been able to make real the dream of centralized control. It is enough to know that many of its shortcomings were due to the lack of standards both of organization and of method.

The first California Fruit Exchange was doomed from the start,[1] notwithstanding the nominal indorsement of the state board of horticulture. Over-zealous in their plans and tactless in their methods, its promoters had to face the fact that those who had been most active in their efforts to make the Union a success were not with them, but instead were organizing the Fruit Growers' and Shippers' Association for the remedying of a few of the most pressing evils.

The California Fresh Fruit Exchange (now shortened to "California Fruit Exchange") was organized at a time when the Association was losing its hold on the shippers, and in the demoralized condition of the

[1] See footnote, p. 404.

market there was need for reducing marketing costs through the elimination of middlemen's profits in supplies, and the rebating of a portion of the commission charges. With the growth of its business, however, less emphasis has been placed upon these conserving functions of the Exchange. Its success is clearly due to the wisdom which its managers have shown in adapting their methods to the conditions of ordinary business while adhering to the standards of safety as set by the experience of the Union.

Yet viewed in the most favorable light, the achievements of co-operation in the marketing of California fruit are still largely prospective. The success of a single exchange is paralled by the success of a dozen large shipping houses, and the growers who deal with the shippers are generally satisfied with their treatment. Probably the views of the average fruit man were expressed by Mr. Howard C. Rowley, editor of the *California Fruit Grower*, at the convention of 1906, when he said:

> "In the matter of selling your goods, I have no patience with the theorists who get up and argue by the year that this or that particular method is the only way that any product of the soil can be sold to advantage. I do not think that there is any one way. . . . Co-operation, so far as uniformity of action or anything like a unanimous scale is concerned, has proved an absolute failure; not in theory, the theory of it is perfect, but in practice. In the matter of selling your products, nearly every case is different in some particular, and for this reason one method is the most advantageous in one case and another in another. There is no royal road to the highest price for fruit."

The other side was defended by Mr. A. R. Sprague, at that time president of the California Fruit Exchange. "Co-operation in California," said Mr. Sprague, "has had its successes which have been continuous, and its failures, which have been almost

as continuous, It would be . . . ridiculous for us . . . to say after having chosen a bad method and a bad piece of machinery with which to attempt to effect co-operation, and having found that it has failed, that co-operation is therefore a failure. Co-operation is a success. It is something which is capable of demonstration, and is being demonstrated every day in the year. The reason why we have had so many failures is because we have so many times tried to do it wrong."[1] There is a wide range within which co-operative activity may be exercised, but always with recognition of the fact that motives of self interest will predominate over mere altruistic ideas of a few enlightened leaders. It is submitted that if a co-operative organization cannot hold its members, and serve them better than outsiders are served and convince them of that fact, it has no reason to exist.

FRED WILBUR POWELL.

PHILADELPHIA.

[1] State Horticultural Commission, Report, 1905-6, pp. 369-70, 375.

NOTES AND MEMORANDA

THE CORN BOUNTY EXPERIMENT OF CHARLES II

It is the prevailing belief that the Act of 1689 (1 W. & M., c. 12) was the "first" corn bounty act in English history.[1] Volume XVIII of the Calendar of State Papers, Domestic Series of the Reign of Charles II, just published (1909), contains, however, a letter of January 8, 1677, in which reference is made to "the bounty by the Act for exportation of corn."[2] In the index to the volume this is taken to be the law 22 Car. II, c. 13.[3] But a glance at the statute referred to shows that it contains no corn bounty clause. Search, however, reveals a hitherto forgotten corn bounty act, sixteen years earlier than the bounty act of history. This statute, 25 Car. II, c. 1, § 31, is not printed in the Statutes at Large, but is found in both index and text of Keble's Statutes, printed 1684; and, tho not in the

[1] "This was the first Law for allowing any Bounty on Corn exported," Anderson, Origin of Commerce (1764), ii, 189. "This was the first law for allowing any bounty on corn exported," Macpherson, Annals of Commerce (1805), ii, 634.

"At the Revolution a new policy was adopted," Lecky, History of England, vii, 245, 246.

In 1689 was taken "the new and surprising step of enacting a bounty on the export of grain," R. Somers, Ency. Brit. (9th ed.), vi, 410.

"The only law of the latter kind [' bounty on exportation '] is the famous Bounty Act of William and Mary," J. E. T. Rogers, in Palgrave, Dictionary of Political Economy, i, 423.

"Daher finden wir denn auch 1683 bereits theoretisch formulirt den Gedanken, dass es im Interesse des Königs sei, eine Prämie für die Ausfuhr von Korn emzuführen." Faber, Die Entstehung des Agrarschutzes in England (1888), 112.

Naudé, knowing only of the act of 1689, accepts this view in Die Getreidehandelspolitik der Europäischen Staaten vom 13. bis zum 18. Jahrhundert (1896), 101.

"The bounty system on exported corn was first instituted in 1689," Atton and Holland, The King's Customs (1908), 144 n.

[2] p. 498. Cf. p. 414, and in vol. xvii, 377, 379, 403.

[3] p. 628.

index of the Statutes of the Realm, it is to be found in the text, buried in a money grant of March 29, 1673.[1]

The act reads in part as follows: "To the end that all Owners of Land whereupon this Taxe[2] principally lyeth may be the better enabled to pay the same by rendering the labours of the husbandmen in raising corne and graine more valuable by exportation of the same into forreigne parts which now is already at a very low rate and that the Nation in generall may have her stocke increased by the returns thereof Bee it further enacted that for the space of three years from the first day of this Session of Parlyament and from thenceforward to the end of the next Session of Parlyament when Mault or Barley (Winchester Measure) is or shall be at twenty fower shillings a quarter, Rye thirty two shillings a quarter and Wheate forty eight shillings a quarter or under in any Port or Ports of this Kingdome or Dominion of Wales every Merchant or other person who shall putt on Shipboard in English Shipping (the Master and two thirds of the Mariners at least being His Majestyes Subjects) any sorts of the corne aforesaid from any such Ports where the rates shall not then be higher then aforesaid . . . shall have and receive . . . for every quarter of Barley or Mault ground or unground two shillings and sixpence, for every quarter of Rye ground or unground three shillings and sixpence, for every quarter of Wheate ground or unground five Shillings."

According to the act itself, it was to last only from the first day of the session in 1672–3, that is from February 4, to the last day of the session following the close of a period of three years, that is to Dec. 30, 1678. It seems then to have been in force just a little under six years. It is evident that the act was purely tentative and meant as an experiment. The drain of the corn bounty upon the treasury was considerable and came at an inopportune moment. In Bridlington alone, over £1000 were paid in

[1] Vol. v, p. 781. For above dating, see J. H. of C., ix, 278; J. H. of L., xii, 584.

[2] Direct tax of £1,238,750, to be raised within 18 months.

one year as bounty upon the corn exported under the act.[1] And John Houghton in 1683 estimated that in all about £70,000 yearly were necessary for the payment of corn export premiums.[2]

Tho the act of 1673 was not renewed upon its expiration, it was nevertheless reënacted in essentials in the statute 1 W. & M., c. 12. No doubt the act of 1689 was the all-important bounty act; but this experimental law of 1673–8 brings out the fact that the policy of favoring the exportation of corn by bounty could not have been a thunderbolt or even a surprise to either England or the Continent. Thorold Rogers, in spite of his having "read much that was written at the time," was forced to explain the fact that the act of 1689 "excited neither criticism nor opposition," by the supposition that "state-aided industry was a superstition of the time."[3] The great stimulus given to the exportation of corn during the later years of Charles II, partly on account of the bounty of 1673 and partly on account of the great demand for English grain in Holland during the war,[4] would seem to give the explanation. The act of 1673 had succeeded, or had appeared to have succeeded. And also, the alleged formulation of the bounty idea by Houghton in 1683 is without point.[5] Taken in reference to the evolution of the export corn policy, this act of 1673 supplies a link between the earlier laws, which merely allowed exportation (with or without restrictions) on the one hand, and the bounty act of 1689 on the other. Incidentally, too, light is thrown upon the reign of Charles II, to the experiments of which the reign of William III owed not a little.

The political significance of the bounty has been the subject of some discussion. Sir John Dalrymple, writing

[1] D. Cal. St. P. (Car. II), xviii, 414 (1676).

[2] A Collection of Letters for the Improvement of Husbandry and Trade (1683), ii, 183.

[3] Palgrave, Dictionary of Political Economy, i, 425.

[4] See for example, D. Cal. St. P. (Car. II), xvii, 377, 379, 403, 454, 505; *ibid.*, xviii, 2, 271, 356, 414, 424, 426, 437, 457, 498, 517, 522, 542, 566.

[5] Faber, op. cit., 112; Naudé, op. cit., 101; Cunningham, op. cit., 541.

about a century after the passing of the act of 1689, asserted that the "bounty was demanded by the Tories . . . in return for their consenting to a land tax."[1] Faber, on the other hand, relying upon the report of a debate in the House of Commons in 1677 in which the Tories are said to have voted down a Whig proposal favoring the exportation of corn,[2] regards the Tory policy as unfavorable to a corn bounty.[3] Professor Cunningham accepts this position and carries it to its logical conclusion by making the bounty idea of Whig conception: the act of 1689 was in accordance with the policy of the Whigs who, he asserts, "schemed to foster the agricultural interest, ['by giving a bounty on the export of corn'] so that the landed gentry might be able to make large contributions to the expenses of government."[4] As a matter of fact, it was not the Whig majority of 1689 that made the corn bounty experiment but the Cavalier or Tory parliament of 1661–1679. The bounty policy formed part of the Tory, not the Whig platform.[5] The landed gentry, having benefited by the bounty under the act of 1673, "demanded" the enactment of a similar law in 1689.

N. S. B. Gras.

Harvard University.

[1] Memoirs (second ed.), I. pt. II. 372.
[2] Grey, Debates, vol. iv., p. 342.
[3] Faber, pp. 111, 112.
[4] Cunningham, op. cit., pp. 541, 542.
[5] Compare the position of Oncken, Geschichte der Nationalökonomie, pt. i, 202.

THE DUTIES ON COTTON GOODS IN THE TARIFF ACT OF 1910

The duties on cotton goods were completely overhauled in the tariff act of last year; with some change in the general system, and with considerable change in individual rates. There has been discussion as to the extent and nature of the changes. It is not easy to ascertain how

great and how important they were, since the schedule, already complicated under previous acts, has now been made still more complicated. Detailed analysis shows that, with few and unimportant exceptions, the duties either remain the same or are raised.

Taking up separately the items in the schedule, the first in order is yarn. The act of 1909 reduces the duty on grey carded yarn (not doubled). The duty on the coarsest numbers, not exceeding No. 15, is cut from three to two and one-half cents per pound; on Nos. 16 to 30 from one-fifth of a cent per number per pound to one-sixth of a cent; and on all yarn over No. 30 from one-fourth to one-fifth of a cent per number per pound. On the other hand the duty on colored, combed, or doubled yarn is practically unchanged, with a slight increase on yarn finer than No. 200. The changes are of small importance, since the duty continues to be fairly high on the finer and more costly yarns; high enough, in fact, virtually to prohibit importation.

The greatest reduction in any of the cotton duties is in the rate on card laps, roping, sliver, or roving, which is lowered from 45 per cent. to 35 per cent. But so far as importation is concerned this change has not the slightest significance. No cotton is imported in this stage of manufacture, and none would be imported even if there were complete freedom from duty.

The duties on cotton cloth, as in the previous act, are arranged according to the number of threads per square inch, counting both warp and filling. Six classes are distinguished and each of these classes is subdivided into grey, bleached, and colored cloth; and each of the subdivisions, in turn, is graded according to weight or value or both. Under the new act the system is not altered in its general features; but important changes come from application to each of the subdivisions of new specific duties graded according to value.

By the Dingley act of 1897, cloth not exceeding 50 threads per square inch was divided only according to finish, —

that is, into grey, bleached, and colored. That division is retained by the act of 1909 and with the same duties. But a new provision is made for all cloth in this class above a certain value. Similarly in the case of cloth exceeding 50 and not exceeding 100 threads per square inch, the duties on the cheaper grades are unchanged, and those on the higher grades re-adjusted. In the Dingley act a proviso had been added, as to this second class, that grey cloth not exceeding 100 ends and valued at more than seven cents should pay 25 per cent.; bleached, valued at more than nine cents, 25 per cent.; and colored, valued at more than twelve cents, 30 per cent. This series of ad valorem duties is overhauled and increased in the new act.

Certain coarsely woven cloth, called "etamine," used as foundation for embroidery work, which was relatively valuable, came in under the "countable" paragraphs, and therefore at a specific duty, after a decision of the courts in 1905. It is said that the specific duty which it paid was a small percentage of its value.[1] With the object — so it was stated — of preventing evasion of duty on this class of cloth, the Senate Committee introduced a new scale of duties on cloth not exceeding 100 threads per square inch, graduated according to value. But in fact this was made the occasion for raising the duties on all the more valuable cloth in each class. There are several indications that the change on "etamine" was thus made simply a pretext. In the first place, that fabric constituted but a minor part of the importations in a class in which the importations were in any case relatively small. Moreover, a simple provision for this cloth could have been made, if it had been the only target aimed at. And, finally, a comprehensive scheme of the same kind was applied to the whole series of the "countable" paragraphs, suggesting some larger purpose on the part of those who prepared it. Through Senator Aldrich, who presented it, a carefully arranged plan was carried out.

According to the plan, as settled in the new act, grey

[1] Congressional Record, June 1, 1909, p. 2616.

cloth not exceeding 100 threads per square inch and valued at more than seven cents per square yard is divided into five classes; bleached, valued at more than nine cents, into five classes; and colored, valued at more than twelve cents, also into five classes. The classes are arranged throughout on the basis of value. The substitution of these specific duties for the former ad valorem rates is the gist of the new plan. Moreover provision is also made that none of the grey or bleached cloth in these classes shall pay less than 25 per cent., and colored not less than 30 per cent. The duties have been at least maintained, and in places they have been increased.

The greater part of the cloth imported under the Dingley act fell into the next three classes, 100 to 150 threads, 150 to 200 threads, and 200 to 300 threads; the second being the most important. The duties in each class had been arranged on the same system as those on the coarser cloths, and similar provisos had been made for ad valorem duties on cloths above a certain value. In the new act the old specific duties, i. e., those on the cheaper grades, are again not disturbed. But the ad valorem rates formerly imposed on the higher grades are here also superseded, by a scale of specific duties graduated according to the value of the cloth, and with the proviso that none of the cloth shall pay less than a certain ad valorem duty, — that duty being in each case the same as the ad valorem duty imposed by the Dingley act. Here also the rates may be higher than before, but in no case can be lower.

The reasons for these changes are apparent on an examination of the importations under each subdivision and of the relative ad valorem duty paid in each. As the Dingley act worked in practise, the specific duties on the cheaper grades in each class were higher (in ad valorem equivalent) than the ad valorem duty on cloth above the specified value. But by far the greater part of the cloth actually imported was above that value and therefore paid the ad valorem duty. By introducing the new specific duties graduated according to value and adjusted so as to corre-

spond to the specific duties on the lower grades, the rate is in most cases increased above that actually paid from 1897 to 1909. Cloth which had been paying 25, 30, or 35 per cent. will now pay the equivalent of about 38 or 40 per cent., even as much as 50 per cent. in a few instances.

The object in making these changes, as stated by Mr. Aldrich and his supporters,[1] was to restore the rates which it had been intended to levy under the act of 1897. Yet it must have been a gross oversight in that act if these ad valorem rates on cloth above the specified value — 25, 30, 35 per cent. — were made five or ten per cent. lower than was intended. Ad valorem duties are the simplest of all, and most clearly tell their own tale. Certain it is that in no case are the duties on cotton cloth lowered by the new tariff, and that on the higher priced goods there is some increase.

Another change in the act of 1909 is the introduction of a duty of one cent per square yard upon all mercerised cloth, in addition to the duty which it has paid and will continue to pay under the countable paragraphs. The consideration that by being mercerised the cloth becomes more valuable, and hence, except for the cheapest grades, subject to a higher rate even without this additional duty, seems to have been left out of account.

The only other change in the duties on woven cotton fabrics is the abolishment of the special enumeration of cotton duck, which is now left to be taxed according to the number of threads. Under the Dingley act cotton duck paid a duty of 35 per cent. ad valorem, but difficulty was experienced in determining what was duck. When questioned in the Senate as to the probable result of this change Mr. Aldrich stated that the effect would be to lower somewhat the duty on the coarser grades and to raise it on the higher.[1] It is worth noting, however, that the greater part of the small quantity of duck imported ($15,862 in

[1] Congressional Record, pp. 2613, 2614, 2834, etc.

[1] Congressional Record, June 7, 1909, pp. 2915, 2916.

1907) is of the higher grades, on which it was admitted the duty has been raised.

The most important change in the whole cotton schedule, however, is the increase in the duties on hosiery. For this advance the House of Representatives is responsible. The classification is not altered, but the duty on the three lower classes is materially increased. By the Dingley act cotton hosiery valued at not more than $1. per dozen pairs was subject to a duty of 50 cents per dozen plus 15 per cent. ad valorem, which was equivalent to a duty of 68 per cent. One-half of the total quantity and one-third of the total value of hosiery imported came under this class. The new act places on this class a duty of seventy cents per dozen plus 15 per cent., which will amount to an ad valorem rate of at least 88 per cent. On the second class, valued at from $1. to $1.50 per dozen pairs, the duty is raised from 60 cents plus 15 per cent. to 85 cents plus 15 per cent.; and on the third class, valued at from $1.50 to $2. per dozen pairs, from 70 cents plus 15 per cent to 90 cents plus 15 per cent. On the higher classes the duty remains unchanged, as well it might, since the bulk of the importations falls into the three lower classes. The duty still falls most heavily on the lowest class, and on neither of the three lower classes can it be less than 60 per cent.

The object of these changes is to stimulate the manufacture in this country of full-fashioned goods, now largely imported from Germany. But that will be very difficult, for the reason that the greater part of the stockings made in the United States are knit upon circular automatic machines, which are far better adapted to American industrial conditions than are the cotton frames on which full-fashioned goods are produced. If the cheap German hose are shut out, the principal effect will probably be the stimulation of a further development of the production of seamless stockings. It is the domestic producer of seamless goods against whom the would-be manufacturer of full-fashioned hosiery must primarily contend, and against him no tariff barrier can be raised.

To sum up, the only reductions in the duties on cotton goods under the tariff act of 1909 are those on grey cotton yarn and card laps, sliver, and roving, — changes of no moment. On the other hand, throughout the schedule the duties on the higher priced goods have been raised five to ten per cent., and the duties on the cheaper cotton hosiery about twenty per cent. No attention was paid to the reduction in the cost of production resulting from technical improvements during the last fifteen years, nor to the fact that while the earnings of the operatives may be higher in this country, the product per operative is enough greater to offset, in part at least, the assumed discrepancy in labor cost. In conclusion, it might be suggested that if economy in administration were at all desired, a beginning might well be made by simplifying the intricate cotton schedules.

MELVIN T. COPELAND.

HARVARD UNIVERSITY.

AN AMERICAN UTOPIA

By 1840 in a number of Northern states of the Union, both manhood suffrage and free public education were accomplished facts. But the panic of 1837 and the depression of the immediately succeeding years convinced many that the ballot and the school were insufficient to guarantee democracy and human equality and convert the republic into an earthly Utopia. The old panaceas had failed to stand the test of experience; and the way was cleared for the propaganda of a new antidote for social ills. The forties and fifties brought forth the land reformer. Individual and inalienable ownership of equal farms would institute a new era, in which inequality, injustice, and oppression would vanish. Living upon an inalienable homestead, and this alone, would give " freedom to a man's vote."

In 1829–1831, George H. Evans, Robert Dale Owen, Frances Wright and a considerable portion of the working-

men of the period had inclined toward communism.[1] Their plan for a public school system was of the boarding school type: all pupils were to be fed and clothed alike, and at public expense.[2] Thomas Skidmore, a machinist and for a brief period the dominating spirit in the Workingmen's party of New York City, was still more radical in his views. He wished to abolish inheritance and to divide the property of those who died during a given year equally among those attaining the age of twenty-one years during the same year. Children were to be cared for and educated at public expense. But fifteen years later the land reformers presented an entirely new ideal. Individualism, not communism; *laissez faire*, not governmental interference; private and inalienable ownership of land, not land nationalization, — these were some of the distinctive differences between the two classes of reformers. Communism had been sloughed off; the individualism of the frontiersman stood plainly revealed.

In 1844, Evans, who had worked with Owen and Frances Wright in the workingmen's agitation of 1829–1831 for free tax-supported public schools, heard a new call to action. A few ardent enthusiasts met Evans in the printery of John Windt; and another plan to regenerate mankind was devised. The movement spread. Humanitarians, workingmen, and the growing capitalist class finally united in demanding land reform.

Lewis Masquerier wrote a book which presents the views of one of the radical land reformers.[3] The title of this little volume, as was frequently true of books written a generation or two ago, is a synopsis of the succeeding pages, — "Sociology or the Reconstruction of Society, Government and Property upon the Principles of Equality, the Perpetuity and the Individuality of the Private Ownership of Life, Person and Government, Homestead and the whole Product

[1] Carlton, Political Science Quarterly, Sept., 1907.

[2] Rights of Man to Property (1829).

[3] Masquerier published his book in 1877, in New York, long after the period of his active work.

of Labor, by organizing all nations into townships of self-governed homestead Democracies, self-employed in farming and mechanism, giving all the Liberty and Happiness to be found on earth." The rights in regard to land ownership which Evans, Masquerier, and others emphasized were: (1) equality in the quantity of land owned by individuals or families; (2) land should be inalienable, or the ownership should be perpetual; and (3) land should be owned by individuals, not owned collectively.

To the enthusiastic land reformer, land alienation portended inequality and social injustice. It was urged that the soil like a man's body, should never have a price set upon it. Land must be exchanged for land; and products only for products. "All the institutions of society and government are really founded upon the evil principle of alienation and monopoly of property and other rights." Greeley, in "Hints toward Reform," also pointed out the evils of land monopoly and demanded "land limitation." "A single law of Congress, proffering to each landless citizen a patch of the Public Domain, — small, but sufficient, when faithfully cultivated, for the sustenance of his family, — and forbidding farther sales of the Public Lands, except in limited quantities to actual settlers, with a suitable proviso against future aggregation, would promote immensely the independence, enlightenment, morality, industry, and comfort of our entire laboring population evermore." Again in his "Essay on Emancipation of Labor," Greeley declared: — "I trace the lack of employment, the scanty reward, and the meagre subsistence often accorded to Labor, directly to the resistless influence of Land Monopoly."

Masquerier drew up a cosmopolitan "model constitution." This was an "attempt to declare the thoro principles of Social and Political Science; a new form of Society and Government, and adapted to any state or nation." It was proposed that the land be divided into townships composed of farms of not less than ten acres in extent. Each family was to be the inalienable owner of one of these farms. The nation was to be divided into

townships. Each township was to be six miles square with a square mile in the center for a park and for public edifices. In short, the nation was to become "a paradise of rural Cities."

But Masquerier went farther. He applied the cardinal principle of non-alienation to government. Office holding government, like absentee landlordism, was held to be a fundamental evil. Universal suffrage coupled with representative government was simply alienation of that which should be inalienable, namely, sovereignty. Democracy of the town-meeting type was apotheosized as the only just form of government for all times and all places. Women were to be placed on an equality with men in Masquerier's rural Utopia.

This unique scheme was the framework of an individualistic, democratic Utopia. It inclined toward anarchism rather than toward communism; it was reactionary in that it looked toward a primitive type of agricultural society. Masquerier pictured a Utopia which truly looked backwards. Agriculture and manufacture of a crude type were to be followed. The *laissez faire* system was to prevail as far as possible; and the function of the central government was to be reduced to a minimum. Commerce, cities, cooperative action, and representative government were spurned as exemplifying monopoly and civic decay. The ideal of the radical land reformer of the pre-Civil War period clearly has the imprint of the American primitive, isolated-farmhouse type of association. Masquerier glorified a type of civilization which melts before the railway, the factory, and modern trade. The land reformer agreed with Rousseau in opposing commerce and manufacture, with Jefferson in glorifying a rural democracy and in fearing the development of cities, and with the Greeks in demanding direct participation in government by all citizens; the concepts of modern sociology were outside his limited range of vision.

An individualistic Utopia of farmhouses was indigenous to a country peopled with a race of highly individualistic

men and women, and possessed of an abundance of uncultivated, but cultivateable, land. The communistic schemes of Owen and of Fourier were of European origin. The Utopia of Masquerier and Greeley was necessarily that of a frontier community living upon the soil in an independent fashion. The simple life of the pioneer became the ideal life for society everywhere and any time.

These land reformers blazed the way toward the Homestead Act. The workingmen of the cities early looked with favor upon free land for homesteads. Greeley pointed out two ways in which the city laborer would benefit. (1) Some competitors would be drawn to new lands, thus tending to raise wages, or at least to prevent lowering the rate of wages. (2) There would be an increasing demand for the products of manufactories and workshops, thus increasing the demand for labor.

Employers of labor were favorably impressed by the latter effect, but unfavorably by the former. Their attitude would largely be determined by the relative importance of the two. After the potato famine in Ireland and the revolutionary disturbances of 1848, the rapid influx of immigrants afforded a supply of labor which would not be seriously drained by free homesteads. The gradual development of the factory system and the expansion of the railway network showed the need of wide markets on one hand, and the possibility of economically reaching distant markets on the other. To carve farms out of the virgin western wilderness meant the creation of a demand for the products of factory and mine. This shifting of the economic center of gravity caused many of the manufacturers and employers of labor to align themselves with the land reformers and the workingmen in demanding the rapid extension of the small farm system with individual ownership.

The South with its plantation system and its slave economy stood as a mighty obstacle. The Republican party was a concrete result of the insistent demand for free homesteads.[1] The platform of the Republican party in 1860

[1] Commons, "Greeley and the Republican Party." Pol. Sci. Quart., Sept. 1909.

contained a plank in favor of "the free homestead policy"; and when the Southern Senators and Representatives left the halls of Congress at the opening of the civil war, the famous Homestead Act became a law. This act partially embodied the demands of the leaders of the land reform movement, — Evans, Greeley, Masquerier, and others.

Of the many curious reform movements of the "yeasty" period of the forties and fifties, perhaps none bore better fruit than that for land reform. Altho to-day the eccentricities in the schemes of Evans, Greeley, and Masquerier can readily be discerned, it may well be believed that their agitation did much to prevent the early development of a system of absentee landlordism in the central and western portions of the United States. And the votes of the workingmen were potent factors in the partial consummation of the reforms demanded by the humanitarian leaders.

Frank T. Carlton.

Albion College.

BOOKS RECEIVED

Barnett, G. E. The Printers: A Study in American Trade Unionism. Cambridge: American Economic Association. 1909. pp. 387. $1.50.

Barrett, C. S. The Mission, History and Times of the Farmer's Union. Nashville: Marshall & Bruce Co. 1909. pp. 419. (A narrative of the greatest industrial-agricultural organization in history and its makers.)

Baudeau, N. Première Introduction à la Philosophie Économique ou analyse des états policés 1767. Paris: P. Geuthner. 1910. pp. 192. 6.25 *fr*. (Collection des Économistes et des Réformateurs sociaux de la France.)

Blanchard, G. Cours d'Économie Politique à l'usage des Étudiants des Facultés et Écoles de Droit. Paris: Pedone. 1909. pp. 712. (Tome I. La production, la consommation et la plus grande partie de la répartition.

Böhm-Bawerk, E. von. Kapital und Kapitalismus. Innsbruck: Wagner. 1909. pp. 171. M.11. Zweite Abteilung: Positive Theorie des Kapitales. Dritte Auflage. Erster Halbband (Buch 1 & 2.)

Brown, N. C. Freight Rates and Railway Conditions. Addresses and Correspondence. New York: J. Kempster. 1909. pp. 207.

Butler, E. B. Women and the Trades. Pittsburgh, 1907–1908. New York: Charities Publication Committee. 1909. pp. 440.

Callender, G. S. Selections from the Economic History of the United States 1765–1860. Boston: Ginn & Co. 1909. pp. 819. $2.75. (Selections and Documents in Economics.)

City of New York. Report of Commissioners of Taxes and Assessments for the quarter ending June 30, 1909. New York: M. B. Brown Co. 1909. pp.85.

Cohen, J. E. Socialism for Students. Chicago: C. H. Kerr. 1910. pp. 153.

Committee on Fuel Supply. The Buying and Handling of Steam Coal. (A Report.) Boston: Boston Chamber of Commerce. 1909. pp. 48. $2.25.

Croly, H. The Promise of American Life. New York: Macmillan. 1909. pp. 468. $2.00.

Devine, E. T. Social Forces. New York: Charities Publication Committee. 1910. pp. 226. $1.25. (From the Editor's page of The Survey.)

Dubief, F. L'Apprentissage et L'Enseignement Technique. Paris: Giard et Brière. 1910. pp. 506. 6 *fr*.

Ketkar, S. V. The History of Caste in India. Vol. I. Ithaca: Taylor & Carpenter. 1909. pp.192. $1.60. (Evidence of the Laws of Manu on the Social Conditions in India During the Third Century A.D., Interpreted and Examined with an Appendix on Radical Defects of Ethnology.)

Kleinwächter, F. Lehrbuch der Nationalökonomie. Leipzig: C. L. Hirschfeld. 1909. pp. 483. M. 8. Zweite Auflage.

Labriola, A. Il Capitalismo. Lineamenti Storici. Torino: Fratelli Bocca. 1910. pp. 393. l5.

Lichtenberger, J. P. Divorce: A Study in Social Causation. New York: Columbia Univ. 1909. pp. 230. $1.50. (Vol. XXXV, No. 3. Columbia University Studies.

Lincoln, J. T. The City of the Dinner-Pail. Boston: Houghton, Mifflin. 1909. pp. 186. $1.25.

Lobingier, C. S. The People's Law or Popular Participation in Law-Making from Ancient Folk-Moot to Modern Referendum. New York: Macmillan. 1909. pp. 429. $4.00. (A Study in the Evolution of Democracy and Direct Legislation.)

Maurivex, L. De la Question Sociale. Tome I. Économie Politique. Paris: Giard et Brière. 1909. pp. 306. 3 *fr*.

Meade, E. S. Economics. A Practical Exposition of the Science of Business with illustrations from actual experience. Chicago: De Bower-Elliott. 1909. (Modern Business. Vol. I.)

Ministère de l'Intérieur et de l'Agriculture, Administration de la Statisque générale. Catalogue de la Bibliotèque de la Commission Centrale de Statistique. Bruxelles: Hayez. 1909. pp. 538. (Tome V. Ouvrages concernant la Hollande, l'Allemagne, l'Autriche-Hongrie, la Suisse et l'Italie.)

Myers, G. History of the Great American Fortunes. Vol. I. Chicago: C. H. Kerr. 1910. pp. 296.

de Nemours, D. De l'Origine et des Progrès d'une Science Nouvelle, 1768. Paris: P. Geuthner. 1910. pp. 40. 1.50 *fr*. (Collection des Économistes et des Réformateurs sociaux de la France.)

Parsons, P. A. Responsibility for Crime. An Investigation of the Nature and Causes of Crime and a Means of its Prevention. New York: Columbia Univ. 1909. pp. 194. $1.50. (Vol. XXXIV, No. 3. Columbia Univ. Studies.)

Phillips, J. B. Freight Rates and Manufactures in Colorado. A Chapter in Economic History. Boulder: Univ. of Colorado Studies. 1909. pp. 62. $0.75.

Pleydell, A. C. Municipal Taxation. An address before the League of American Municipalities, Montreal, 1909. New York: New York State Tax Reform Association. 1909. pp. 20. $0.10.

Post, L. F. Social Service. New York: A. Wessels. 1909. pp. 361. $1.00.

Price, W. H. Life Insurance Reform in New York. Cambridge: American Economic Association. 1909. pp. 95. $0.75.

Publications of the Mississippi. Historical Society. Volume X. Oxford: Printed for the Society. 1909. pp.579.

de La Rivière, Le M. L'Ordre naturel et essentiel des Sociétés politiques, 1767. Paris: P. Geuthner. 1910. pp. 405. 12.50 *fr*. (Collection des Économistes et des Réformateurs sociaux de la France.)

Ryan, J.-A. Salaire et Droit à l'Existence. Paris: Giard & Brière. 1910. pp. 355. 8 *fr*. (Études économiques et sociales, VIII.)

Sayous, A.-E. et autres. Le nouveau tarif américain et les intérêts français aux États-Unis. Paris: Larose et Tenin. 1909. pp. 48.

S. E. el Presidente de la República de Chile. Conversion Metalica. Proyecto de Lei aprobado por el Congreso y Observaciones al mismo Proyecto. Santiago de Chile: Imprenta Nacional. 1909. pp. 17.

Seailles, J. La Répartition des Fortunes en France. Paris: F. Alcan. 1910. pp. 142. 5 *fr.*
State of Minnesota, Bureau of Labor, Industries and Commerce. Bulletin on Industrial Accidents and Workingmen's Compensation. St. Paul. 1909. pp. 58.
Subercaseaux, G. Essai sur la Nature du Papier Monnaie envisagé sous son Aspect Historique et Economico-Monétaire. Paris: Larose & Tenin. 1909. pp. 44. 3 *fr.*
Trier, J. Die Volkswirtschaftliche Bedeutung der technischen Entwickelung der deutschen Lederindustrie. Leipzig: Dr. W. Klinkhardt. 1909. pp. 91. M. 2.50. (Technisch-volkwirtschaftliche Monographien. Band X.
Ufficio del Lavoro della Società Umanitaria. Origini, Vicende e Conquiste delle Organizzazioni Operaie aderenti alla Camera del Lavoro in Milano. Milan: Società Umanitaria. 1909. pp. 502. *l* 3.
Veblen, T. Christian Morals and the Competitive System. International Journal of Ethics, Vol. XX. 1909. pp. 17.
Watkins, E. Shippers and Carriers of Interstate Freight. Chicago: 1909. pp. 578.
Whetham, W. C. D. and C. D. The Family and the Nation: A Study in Natural Inheritance and Social Responsibility. London: Longmans, Green. 1909. pp. 233. 7*s.* 6*d.*
Youngman, A. Economic Causes of Great Fortunes. New York: Bankers Pub. Co. 1909. pp. 185.